

# GOVERNMENT ECONOMICS NETWORK

*Strengthening economic advice to government*

## Quarterly Networking Event

Economics and Legislation – Lilla Csorgo  
Economics and Policy – Norman Gemmell

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## About GEN

The network has three aims:



support economics training and professional development;



develop linkages between economists; and



strengthen economic advice to government.

Website: [www.gen.treasury.govt.nz](http://www.gen.treasury.govt.nz) Email: [gen@treasury.govt.nz](mailto:gen@treasury.govt.nz)

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# Inaugural GEN Annual Conference

- Focussed on the use of economics in public policy analysis
- Half-day 14<sup>th</sup> December 2011, Wellington
- **Keynote speaker:** Professor Raj Chetty – Harvard University  
Topic: The long term impacts of education  
*One of the “top young economists doing work on real-world problems” New York Times*
- **Other topics/speakers:**
  - Building economics capability
    - Dr. Graham Scott (Productivity Commission)
    - Dr. Veronica Jacobsen (Ministry of Science and Innovation)
  - Incomplete Contracts: Implications for the Organisation of the Public Sector
    - Professor Neil Quigley (VUW)

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*Plus more to be announced*

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## ECONOMICS IN AN ENFORCEMENT SETTING

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Lilla Csorgo  
Chief Economist, Competition Branch



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## ECONOMICS IN ENFORCEMENT SETTINGS

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- Enforcement branches do not make policy/law.
- Parliament makes policy/law.
- Enforcement branches enforce policy/law.



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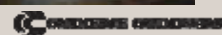
## MAKING LAW

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Laws are like sausages  
— it is best not to see  
them being made.

Otto von Bismarck



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## ENFORCING LAW

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Go ahead, make my  
day.

Clint Eastwood



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There may be questions  
related to the interpretation  
of the law.

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## QUESTIONS OF LAW

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- What is a market?
- What is a lessening of competition?
- What is market power?
- What is buying power?
- What does it mean to be in competition?
- How are markets defined?
- What does it mean to abuse or take advantage of market power?
- How do we recognize when advantage has been taken?



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## WHAT ENFORCEMENT BRANCHES DO TO HELP ADDRESS QUESTIONS OF LAW

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- Issue guidelines:
  - *Mergers and Acquisitions Guidelines*
  - *Guidelines to the Analysis of Public Benefits and Detriments*
  - *Cartel Leniency Policy*
- Bring enforcement action, taking positions on such matters as meaning of market power etc.
- Appeal lower court decisions on these questions of law.
- Provide input to government policy makers on possible legislative amendments.



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## ROLE OF ECONOMISTS IN ALL THIS

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- US Horizontal Merger Guidelines, 2010
  - Revisions largely follow academic writings of Carl Shapiro and Joe Farrell (both at University of California, Berkeley).
  - Other countries have now made revisions to their merger guidelines or are considering revisions based on the US changes.
- Section 2 Report: Single-Firm Conduct (monopolisation)
  - Approximately 70 economists participated in 19 sessions.
  - EU issued abuse of dominant undertakings, relying in part on price-cost tests.



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## "PHILOSOPHY"

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- Section 2 report was withdrawn with change in to Obama administration:
  - "Withdrawing the Section 2 report is a shift in *philosophy* and the clearest way to let everyone know that the Antitrust Division will be aggressively pursuing cases where monopolists try to use their dominance in the marketplace to stifle competition and harm consumers." Christine Varney, Assistant Attorney General
- No section 2 cases since 2009



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## ECONOMIC TOOLS USED IN ANALYSIS

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- Hypothetical monopolist test
- Critical loss/critical elasticity
- Price correlations
- Regressions
- Upward pricing pressure index
- Merger simulations
- Price-cost tests

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NETWORKPOLICY AND ENFORCEMENT: MORE CLOSELY  
MATCHED THAN ONE WOULD THINK

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# Economics & Policy Advice

Norman Gemmell



## The Problem:

*2010 Scott Review of Policy Advice:*

"Quality processes assess the quality of advice, not analysis, and are frequently about gaining consensus, not high-quality analysis."(p.62)

"...professional [economic] policy capability is lacking."(p.64)

## Hypothesis:

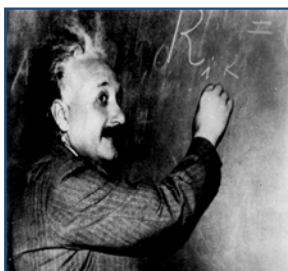
The typical training of an economist is not closely aligned with the skills of a public service policy adviser





## Economists skills divide into ...

### Theory



### Applied



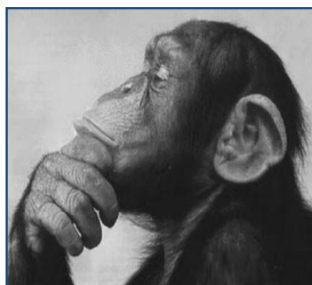
### Policy



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## Policy advice skills divide into...

### "Thinkers"



### "Do-ers"



### "Talkers"








Analysis

Delivery

Communication


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## What mix of skills for policy advice economists?

Public Service skills:	Analysis	Delivery	Communication
Economist skills:			
Theory			
Applied			
Policy			

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## *Academic economists' skills:*

Public Service skills:	Analysis	Delivery	Communication
Economist skills:			
Theory			
Applied			
Policy			

... Greatest emphasis on, and reward/kudos for,  
**theory → applied → policy**      ??

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### Policy advice economists' skills

Public Service skills:	Analysis	Delivery	Communication
Economist skills:			
Theory			
Applied			
Policy			

... Public service: greatest emphasis on, and reward for,  
**Communication → delivery → analysis**



### Why the problem?

For successful policy advice:

- Failure to **communicate** is *immediately obvious* ... and fatal
- Failure to **deliver** is *almost* as immediately obvious and fatal
- Failure to **analyse** with sufficient rigour may *remain hidden* for a long time (especially with public service monopoly of analysis/advice)



## Solutions?

- Change the price?! ...better reward structure for analytical rigour, or 'successful analysis'
- Change the (non-market determined) quantity? ...more training in "*analysis of policy problems*"
- Use the market more? ...more contestability of economic analysis, policy advice, & training
- Change the policy advice economist's skill mix? ...teach economic policy 'thinkers' more 'delivery' and 'communication' skills (Is the reverse possible?)

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## Successful policy advice? An example

... The **VUW-IR-TSY Tax Working Group** and **Budget 2010**:

### Analysis

- Commission international quality research
- Clear & agreed analytical framework for tax reform ("**the pentagon**")
- Extensive in-house analysis of policy reform
- Used mix of analytical skills (theory, empirical, policy, technical)

### Delivery

- Contracted-out much of organisation
- Substantial & advance planning of **TWG**
- Scheduled regular engagement with public and Ministers
- Regular cross-department collaboration
- Large volume of written material produced

### Communications

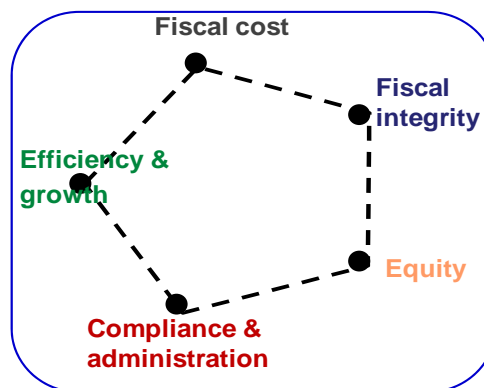
- specialist comms. adviser
- Regular checking with Ministers Offices
- Up-to-date website availability
- Use of **simple facts/charts/statistics**
- Non-specialist presenters at public events
- The "**A3s**" & "**block diagrams**"

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## A clear framework:

... to assess the merits of different tax regimes or reforms:

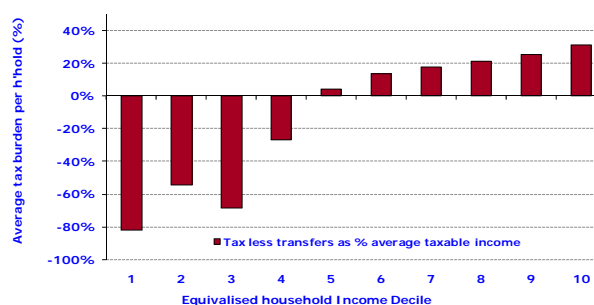
The 'pentagon' :



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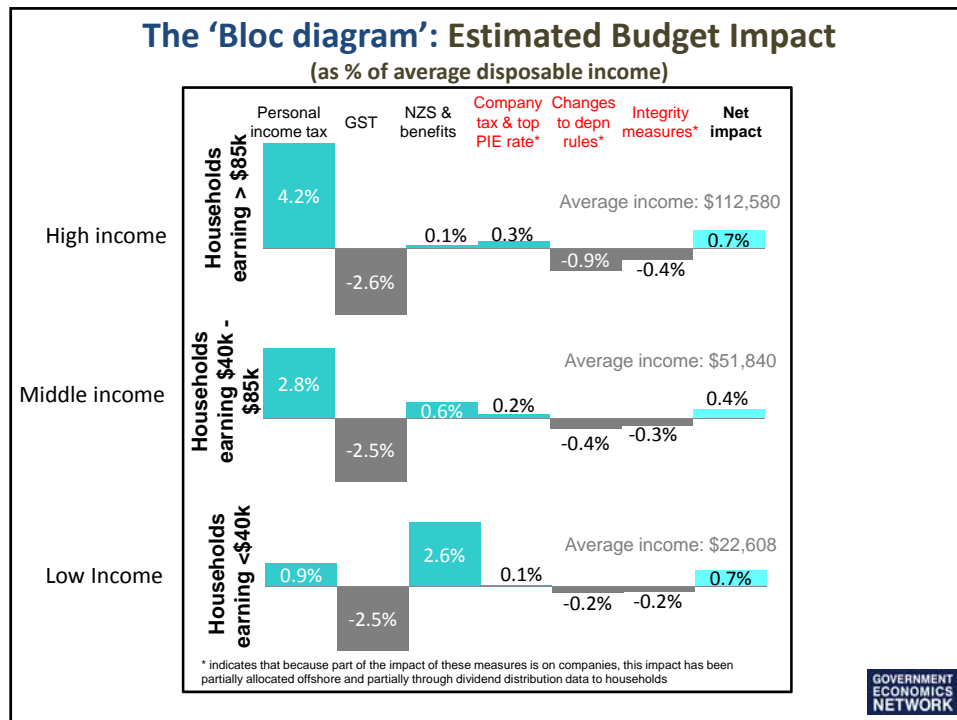
## Killer 'facts' and charts...

- The taxpayer subsidises rental property investors: "...the \$200 billion investment in rental property generated net rental *losses* totalling \$0.5 billion and approximately \$150 million in tax revenue losses in 2008" (TWG, p. 26)
- The poorest 40+ percent of households **receive more in transfers from government than they pay in income tax.**



Transfers = NZ Super, Family tax credits, Welfare benefits

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## Conclusions:

To improve the contribution of economists to policy advice we need to:

- Improve the quantity & quality of “policy analysis” training
- Reward it more
- Learn to communicate good analysis better, especially to policy-makers (Politicians)