

Economics in government: Interviews with Chief Economists

Philip Stevens

*Government Economics Network Board Member and Chair of the Professionalisation sub-committee, and Director Economics & Research at the New Zealand Productivity Commission**

December 2023

Acknowledgements: special thanks to Almo Wong, Ben Temple, Lynda Sanderson, the GEN Board and of course the participants in the survey. All remaining errors are the author's own.

* The opinions, findings, recommendations, and conclusions expressed in this report are those of the author and do not represent those of the Government Economics Network or New Zealand Productivity Commission, or those of the respondents' organisations.

TLDR

- 🍃 Economics is a core capability of government. This paper summarises interviews with 11 Chief Economists to understand the current capability of the New Zealand public sector. Outside of a couple of core economic organisations, the assessment of economics capability by the Chief Economists we interviewed was generally low.
- 🍃 Chief Economists play the role of ‘professional sceptic’ – testing for optimism bias and lack of rigour in analysis. They usually have an explicit or implicit responsibility for economics capability in their organisation.
- 🍃 Economists were often the only person asking: “what is the evidence for this?” or where evidence was referred to “can we believe this?” or “what does it actually mean?”
- 🍃 The understanding of many economic concepts that are fundamental to the business of government – like cost benefit analysis (and alternatives), options analysis, consideration of markets, opportunity cost, asymmetric information, perverse incentives, and unintended consequences – are highly variable.
- 🍃 As well as the specific tools of economics, Chief Economists and economics teams are back-filling activities that, in terms of the government’s own Policy Skills Framework, are considered to be part of core skillset for policy analysts, like interpreting and using evidence and insights, or even basic numeracy. This is worrisome for the quality of policy advice and operations.

1 Introduction

Economics is a core capability of government: it provides a set of tools to interpret the world, to identify and assess opportunities, design policy and regulations and evaluate their effectiveness (Anand et al., 2019; Makhlouf & Mukherjee, 2019; Nelson, 1987; Norman, 2007). Established in 2011, the Government Economic Network (GEN) aims to ensure that robust economic analysis supports excellent government policy for Aotearoa New Zealand. GEN is a charitable organisation that provides a professional forum for learning, development, and networking. It does this through three avenues:

- Support economic training and professional development in the public sector for economists and non-economists.
- Develop linkages between economists across the private, public and academic sectors.
- Strengthen economic advice to government.

One of the impetuses for the formation of the GEN was the 2010 *Review of Expenditure on Policy Advice*. The review noted a paucity of experienced economic input into policy advice across the public service generally (Scott et al., 2010). The Review recommended the establishment of Heads of Profession, including economic, to develop professional standards, provide professional development and create networks of professionals working in the public service.

To deliver this, the GEN set up a Professionalisation Committee to identify opportunities to improve the recruitment, development, retention, and use of economists and those with economics skills in government. One of the ways in which we are collecting evidence to support this work is through a series of interviews with Chief Economists. Whilst the primary purpose of this paper is to inform the GEN's professionalisation work, the GEN Board, and the Chief Economists themselves felt it was important to make the results available to support a more general discussion of economics in the public sector.

2 Method

This analysis is based on a series of semi-structured interviews with eleven Chief Economists at government agencies. These agencies included Ministries and Government Agencies, Crown Entities, and central agencies. They included policy, regulatory and operational responsibilities, and ranged in size from fewer than 50 to over 6,000 employees¹. Some of the organisations had what could be seen as core economic roles, and so had a particular focus on economic analysis in their area of focus; for others the role of economics was more general. Five of the organisations were members of the "Economic Chief Executives group"².

Interviews lasted approximately half-an-hour and were structured around three questions. Interviewees were provided with the following before the interview³:

As part of the Government Economic Network's mission to improve policy making and delivery through economics, we are undertaking work on professionalisation. What does it mean to be an economist in the public sector? What skills are needed and where do we get them? How are they (and careers more broadly) developed? As part of this discussion, we will be interviewing Chief Economists in the public sector to get their insights into the issues.

In this meeting, we are looking to discuss:

- 1. Economics capability in [agency] (and the public sector more broadly)*
- 2. Career development for economists in the [agency] (and the broader sector)*
- 3. Your role as Chief Economist and its relation to 1. and 2., above*

Interviewees were told that the research would not identify individual people or agencies. This report was provided to them and discussed prior to being shared more widely.

Caveats

There are two caveats. First, not all organisations have Chief Economists. This means that our sample is likely to be biased towards organisations that value (or have valued) economic analysis. Indeed, some of the respondents did note a lack of Chief Economists in other organisations (see below). Second, the assessments are those of the Chief Economists themselves. This piece of work is not

¹ Source: Public Service Commission, *Public Service Workforce Composition - March 2023 quarter*, <https://www.publicservice.govt.nz/research-and-data/public-service-workforce-composition-march-2023-quarter/>, and Annual reports

² The Economic Chief Executives group includes chief executives of the following agencies: The Treasury, MBIE, Department of Prime Minister and Cabinet, Ministry of Foreign Affairs and Trade, New Zealand Customs Service, Te Puni Kōkiri, Ministry of Social Development, Ministry of Education, Stats NZ, Inland Revenue, New Zealand Trade and Enterprise, Ministry of Transport, Ministry for Primary Industries, Tertiary Education Commission, and the Ministry for the Environment.

³ Word clouds of the unedited transcripts and of the researcher's notes are included in the appendix to this paper.

itself an external review, based on examination of specific pieces of work, for example, but rather a way of obtaining an assessment from some of the most senior economists in the public service.

3 Results

There were some broad trends in the responses. There were some organisations that respondents considered as “economic agencies”. These are organisations whose core business is economic in focus. In the other organisations, economics was a tool that might cut across the business of making policy and delivery of services. All the organisations were described as having a policy or regulatory function. Some of the organisations also had a large operational focus delivering policies, and in the design and oversight of regulation.

3.1 The role of the Chief Economist

There is a range of versions of the Chief Economist role. At one end of the scale were those who were effectively ‘chief, chief analysts’, with thought/technical rather than people leadership roles. There were some who managed teams of economists, and others who led groups of multiple teams made up of economists and other policy or research functions. Most Chief Economists managed direct reports.

General functions

One function that most Chief Economists stated they had – either by design or choice – was that of “professional sceptic”. One respondent described this role as “Making sure people don't say anything fast and loose over XXX, or are over optimistic about ideas”. Another described it as “a noisy voice in strategic decisions”. Other functions included coaching and mentoring of staff, providing training courses, scoping pieces of work (both with the purchaser and provider), and shaping strategy and work programmes.

Role of Chief Economists in capability building

Some, but not all, Chief Economists had a specific responsibility for the economics capability of the organisation as a whole. Of these, there were essentially three categories. Some had it in their job description, and they were enabled and held to account for this responsibility. Others had it in their job description, but it was seldom if ever mentioned beyond that. Third, there was a group of Chief Economists who had identified this as an important role themselves and either wrote it into their performance agreement or just got on with it.

3.2 Economics capability`

Discussions about economics capability covered three groups of staff. The first were those in economist roles. These could literally have “economist” in the job title or be roles that required a high level of economics capability themselves. The second were staff who used economic tools regularly in their jobs. These tools included cost benefit analysis, options analysis, consideration of markets, opportunity cost, asymmetric information, perverse incentives and unintended consequences.

The overall assessment of the economics capability in their organisation and the public sector as a whole was varied. From many it was considered weak. It was noted that some other organisations did not have Chief Economist roles that might be expected to do so. Some had traded it off for other capabilities, where others had recently grown their economic capacity and/or capability.

There was a lot of commonality between organisations, but no two organisations were the same. Indeed, the experiences of some were sometimes the opposite to other organisations. In this section we will bring out broad trends and key issues, and highlight where differences emerge, where we can without identifying respondents.

Of the five organisations who were members of the Economic Chief Executives Group, three felt their organisation had good economics capability.

In some organisations – particularly the non-economic agencies – the economics capability was focussed in one team or group. In these cases, the Chief Economist was also a manager. The benefits of this are that it allows for economies-of-scale of economic analysis and professional development – in terms of coaching, observing others in action, participating in projects applying economics across a number of subject areas, and clear paths of career development in economic roles. The disadvantages included the potential to reduce economics capability in the organisation more widely, and making economic contributions more transactional and thus dependent on ‘customers’ choosing whether, when, how, and for what purpose to engage economists. In a small number of cases, the concentration of economics capability in a small, central function, actually created a kind of backwater where few called on – or were even aware of – them. Given that in this case the demand for economic analysis is a derived demand (Marshall, 1890), one might interpret this as either an assessment of the quality or utility of analysis provided, or of the demands on the quality of the policy advice itself.

Not only do the organisations vary in the number of economically capable staff, but there are also different shifts in the demand for economic analysis and economically capable staff. Some organisations had reduced economic as well as research and evaluation functions, and these were now being contracted in. This has met with varying success (both between and within organisations). Sometimes this decline in internal capability is driven by the need to grow specialist capability in other areas.

The role of economists in public sector organisations

The role of economists varied across the organisations. In some places they performed a specific role that was unique to the organisation. Some were focussed as a central service to support the rest of the organisation.

Very few of the organisations had roles, outside of the Chief Economist, with ‘economist’ in their job title. Of those who did not, many had a number of roles in a central function that were primarily economic in focus (usually, but not always, done by someone with an economics degree).

One area where the majority of respondents reported economics capability being sought from them or their teams was in the Budget process. For almost all this included supporting or doing work required for the CBAX tool (more on that below) and for some it also included more general analysis to support options analysis and analysing impacts. The consideration of consequences was usually not asked for, but economists tended to consider it a vital part of the process that was missing and so provided it. In a small number of cases there was a central economics function that was not directly involved in the budget process.

It seems that the most successful economics functions were those where the Chief Economist and their staff acted rather like entrepreneurs. This was done by actively going out into the organisation and identifying areas where they could add value, inserting themselves into processes (“I get myself

on to lots of boards so that I can spot the important decisions when they are being made”) or prove their value proposition to potential clients.

The majority of respondents noted that there were never enough people with economics capability to meet either the demands placed on them or what the respondents perceived to be the need. This went beyond the difficulty of maintaining specific roles that were only rarely used. This was also independent of whether organisations were growing, shrinking, or maintaining the economics capability and capacity of the organisation. Of course, in any market there is demand if the price is right. It is not clear that the provision of economics services operates smoothly as a market (eg, resources are seldom fungible between outsourcing [ie, consultants and contractors] and insourcing [ie, internal staff]).

Economists as empiricists

We found an interesting relationship between economics and the use of evidence in the majority of organisations. There is no reason why this should be the case. The understanding and use of evidence is a crucial part of the policy process and of the toolkit of any policy analyst (DPMC, 2019).

We found four aspects of this:

1. The evidence mindset
2. Understanding and using evidence
3. Basic data use
4. Research for policy

Economists were often the only person asking: “what is the evidence for this?” or where evidence was referred to “can we believe this?” or “what does it actually mean?” Sometimes this was the reason why economists were brought in, either because economists were seen as ‘the evidence people’ or because the requester did not have subject expertise. In the majority of times, the Chief Economists or their economist colleagues were doing this without being asked, and often actively looked out for opportunities to insert themselves into other processes.

Another issue related to the use of quantitative data. Economists were often asked to backfill what might be thought of as basic statistical tasks – obtaining publicly-available data and presenting it in the form of charts, or transforming and analysing it – that should be within the capability of all policy or operational staff. This raises the question of whether or how this evidence is used when such support from economists is not available. A couple of respondents also noted a decline in numeracy in junior staff with economics backgrounds.

The use of research in policy can be further broken down into doing research and using research. Economists often play the role of bridge makers between policy and evidence. There is no reason why it should be economists doing this – and it may be that there are others in the organisations doing it in other contexts (Chief Scientists, for example⁴). Nevertheless, it was an important role played by economists.

More than half of the respondents assessed the ability of generalists in the organisation to critically examine and interpret evidence as low, and so they felt they had an important role in increasing the

⁴ Whilst there was little reference to Chief Science Advisors in the interviews, the subject did come up when the draft of this report was discussed with the whole group of interviewees. One Chief Economist described a close and fruitful collaboration with their organisation’s chief scientist, with others curious about how this worked.

value of evidence and – critically – reducing the misuse of evidence. Concepts such as uncertainty, dependence on assumptions, attribution of causality (including its direction), omitted factors were all cited as areas where generalist staff (and often pure data scientists) struggled.

One issue that was highlighted by a number of respondents was the use of data science and forecasting without economics (or other social science). Although data scientists and those with physical science backgrounds can do coding and data wrangling, they often don't think about issues such as reverse causality, omitted variables and sample selection. Respondents also highlighted the importance of good scoping and understanding what can be learned from results – roles that they felt were being provided by the economists, rather than the commissioner or analyst themselves.

An important role that respondents described for economics teams, and Chief Economists in particular, is providing courses and training for the organisation. This includes Economics 101 for everyone, and specific training in things like CBA (including CBAX tool specifically⁵) or economics specific to the function of the organisation.

The use of external economics capability

Economists are often asked to support the contracting of external economics capability, but this is not universal. Many teams with economists do not have the capacity to support the commissioning, contracting, assessment and the use of the work.

Contracting economics services work best: where the need is clear; where the capability is specific; or in organisations that have general economic activity, but need to contract in very specific economics capability that is very rare and/or not used frequently enough for the organisation to maintain the capability internally.

A number of respondents discussed wider economics capability outside the public sector, eg, academe. While there were specific examples to the contrary, others felt that the public sector is not well-served by academic economists as a whole. Whilst a few had close relationships with academe, most saw it as rather distant. Some even expressed a view that academics were mistrustful of the public sector.

3.3 Career development for economists

There were varying assessments of the development path for economists. It was understandably clearer and more effective in organisations with larger economics capabilities and/or where it was seen as more part of core business. Larger, core economic organisations found it easier to find people with economics capability. Most organisations with larger economics capability were competing in the same space with another organisation that operated in a similar space. Smaller and/or less obviously (to the outside eye) economic agencies often struggled. This was sometimes the case in ministries where one might expect otherwise. One respondent described an incoming minister as asking how many economists they had. In response to this, they felt: (a) unable to answer the question; and (b) that neither they nor the Minister would like the answer if they could.

Graduate economists usually arrive as part of the general graduate intake. In fewer than a quarter of the cases were they actively recruited and or identified. The arrival of graduates with economics capability was usually down to the luck of the draw.

⁵ For more on the CBAX tool see NZ Treasury (2023)

As with other policy and regulatory roles, the main issues regarding development and retention happen at the senior analyst/advisor level. Many go abroad or to the private sector. Some respondents described this as “not all bad, as long as we get some back”, as they could bring important knowledge from other countries and/or sectors. There was a general issue identified by the distinction between technical leadership and formal leadership (eg, management). Many staff felt that the only opportunity they had for progression was to move into team leader or management roles, where they would use their economics skills much less. Economics is not the only area where the prize for being good at something is to be promoted to another job with less of the thing one was promoted for and more meetings. Nevertheless, respondents said that this seemed to be more apparent in economics than general policy roles.

In most organisations (with one major exception) it was much easier to promote from within than to bring in more senior staff. It was difficult to match market rates for senior staff with economics. Consistent with the theory of compensating differentials, government organisations were able to attract people from the private sector with non-salary benefits, such as work-life balance.

Most development was on the job. Some Chief Economists and their teams provided training in basic economics and CBA to the rest of their organisation. However, they often struggled to find appropriate training for economists or people wanting to grow existing economics capability. Some enabled staff to conduct further study, either individual modules or post-graduate qualifications. Many sent staff on GEN course. However, many had found it challenging to find courses from universities with the breadth of subject matter or depth. One respondent stated: “Beyond GEN, where do our people go to build their capability?” Organisations with enough scale and resources had created their own courses. The development of staff tended to happen without the help of HR departments, who were more focussed on the greater number of policy and operational roles.

4 Summary

Many of the issues facing economics capability in the public sector mirror those for policy capability more widely (DPMC, 2012). However, context such as the smaller size of economics capability within organisations relative to policy capability magnifies these. The Chief Economists agreed that there were three aspects to economics capability: the small group of economists; economic subject knowledge in particular agencies; and the economics capability required more broadly in all government agencies. The first and last of these were the primary focus of this study.

Outside of a couple of core economic organisations, the assessment of economics capability by the Chief Economists we interviewed was generally low. It seems that for many, things have not changed much since the review of Scott et al. (2010). Respondents stated that there was huge variation in general understanding of many economic concepts – like cost benefit analysis (and alternatives), options analysis, consideration of markets, opportunity cost, asymmetric information, perverse incentives, and unintended consequences – that are fundamental to the business of government. Often Chief Economists and economics teams were back-filling activities that – in terms of the government’s own Policy Skills Framework – are considered to be part of core skillset for policy analysts, like interpreting and using evidence and insights, or even basic numeracy (DPMC, 2019). This is worrisome for the quality of policy advice and operations.

Because economists represent only a small portion of staff in most organisations, they are often left to fend for themselves in terms of HR infrastructure – the tools and processes to recruit, retain and develop staff. There are, therefore, opportunities for economies of scale. Since job descriptions,

capability frameworks, identification and even design of courses are often developed by Chief Economists themselves, there is likely to be utility in collectively producing some more generic resources that can be shared.

In addition to this, the training needs of economists are not always being met by current providers (eg, universities). There appears to be an opportunity for GEN to consider providing (or facilitating the design and delivery of) more economics courses. (Although as economists, GEN welcomes a competitive market!)

There are clearly opportunities for building broader numeracy and evidence literacy in the public sector. Whether this is the role of GEN is moot. It might sit better with the Policy Project led by DPMC, for example.

References

- Anand, P., Roope, L., & Ross, A. (2019). How Economists Help Central Government Think: Survey Evidence from the UK Government Economic Service. *International Journal of Public Administration*, 42(13), 1145–1157.
- DPMC. (2012). *The Policy Project – Responsive today, shaping tomorrow: Narrative and direction of travel*. <https://www.dPMC.govt.nz/sites/default/files/2022-04/policy-project-narrative-direction-of-travel.pdf>
- DPMC. (2019). *Policy Skills Framework | Te Anga Pūkenga Kaupapahere*. The Policy Project. <https://www.dPMC.govt.nz/publications/policy-skills-framework-te-anga-pukenga-kaupapahere>
- Makhlouf, G., & Mukherjee, U. (2019). *Economic policy in the public sphere: A perspective from New Zealand*. Institute for Governance and Policy Studies, School of Government, Victoria
- Marshall, A. (1890). *Principles of Economics*. Macmillan.
- Nelson, R. H. (1987). The economics profession and the making of public policy. *Journal of Economic Literature*, 25(1), 49–91.
- Norman, N. R. (2007). The Contribution of Australian Economists: The Record and the Barriers. *Economic Papers: A Journal of Applied Economics and Policy*, 26(1), 1–16.
- NZ Treasury. (2023). *The Treasury's CBAX Tool*. <https://www.treasury.govt.nz/information-and-services/state-sector-leadership/investment-management/plan-investment-choices/cost-benefit-analysis-including-public-sector-discount-rates/treasurys-cbax-tool>
- Scott, G., Duignan, P., & Faulkner, P. (2010). *Improving the quality and value of policy advice* [Improving the Quality and Value of Policy Advice: Findings of the Committee Appointed by the Government to Review Expenditure on Policy Advice]. <https://www.treasury.govt.nz/sites/default/files/2011-04/report-repa-dec10.pdf>

