The Blackett Memorial Lecture 1977
Art and Science in Economic Policy Making

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I AM HONOURED by your invitation this evening to deliver the Blackett Lecture, established in memory of a very distinguished scientist. Some justification for this might, in the view of some, be found in the fact that I have spent my professional career closely associated with what can be described as quantitative economics, but it is an enormous quantum jump from that to any suggestion that I would regard myself as a scientist. Indeed, it is reflection on that conclusion which leads me to my subject, which is to consider some of the aspects of economic policy-making and their relationship to any kind of scientific thought. My general thesis is that economic policy-making is a complex process which is affected by economic knowledge, by certain techniques of analysis, by political considerations and judgement, and by some understanding of the social environment in which we live. My purpose is to try and take this process apart and to indicate some of the limitations within which policy-making must take place. My conclusions must inevitably reflect some of my personal judgements about what we can and cannot do. Whether or not these conclusions will stand up to the scrutiny of my peers, it is nevertheless important to relate those limitations to what we can reasonably expect policy-makers to be able to do, since our expectations in this respect will reflect back on what policy-makers attempt and how they are judged.

My credentials to undertake such a task are, I am afraid, limited and should be laid before you at the outset. I have never been involved in any official way with the process of policy-making. I have not served in any capacity as a ministerial advisor to any political party in power, nor have I spent any time as part of an official policy-making team other than, from time to time in the past, as a technical advisor. Even in this role it is some years since I last made any kind of contribution. In this respect I have no doubt that our Chancellor of the Exchequer would regard me as not having lived in the real world and, from that point of view, an appropriate discount factor should be applied to what I have to say. Apart from my academic work, I have and do participate extensively in advising businesses and in that respect often bear joint responsibility in real time for the consequences of the advice offered. I trust that my business relationships both in the public and private sector are still in sufficiently good repair to warrant the conclusion that I have been of some service. However, it clearly is the case that the bulk of my opinions and judgements that I offer this evening stem from a concentrated examination of the behaviour of the economic system for more than a decade, that resulted in the forecasts and policy studies made jointly with my colleague Terence Burns. To that extent I am talking from outside rather than from within the policy-making system.

It is tempting to make use of this opportunity to examine our economic performance, allocating praise or brickbats to the *dramatis personae* who appear on the stage of economic policy-making, hoping to end up with some normative assessment as to what we should do to get the matter right. That is not my intention, although it is difficult to avoid putting certain contributions into perspective. In part, this is quite simply because I find it very difficult to do so. This is not just a matter of competence, but stems from the view that simple explanations of why certain policies are adopted very often turn out to be illusory. People tend to have their own pet theories of why things
go wrong. At one moment of time, politicians and the media blame faulty policies on the forecasters, who never get it right. Others lay the burden of responsibility on politicians working the political cycle at the expense of longer term economic considerations. Some believe that matters would be improved if only the policy-makers would become more scientific in the way policy is formulated, while some retreat into the luxury of the view that the Treasury has just got it wrong again. None of these, in my view, stands up as an explanation of what we do in its own right. In the course of my remarks I will refer to some of these, but with the restricted purpose of explaining my principal conclusion, which is that what economic policy pursued by governments can achieve is more limited than we and the general public have commonly supposed over the postwar period. In general terms, our expectations have been excessive and it is this which is a more likely source of any further errors rather than technical incompetence, the supposed machinations of politicians or some alleged conspiracy on the part of the Treasury.

MODELS AND FORECASTS

It is appropriate to begin at a meeting of the Operational Research Society with some discussion of models and forecasts. The forecasters have been much abused recently, and it is often an easy matter for the media and others to get a good belly laugh at their expense. I should say that, after biting my tongue on a number of occasions, I regard forecasters as equally fair game, along with almost everyone else, as part of a growing national sport of handing out blame and responsibility in all directions for what happens in the economy. Any forecaster creates a hostage to fortune and, to recall Harry Truman's phrase, "If you can't stand the heat, get out of the kitchen". However, one cannot help but be somewhat concerned that recent public discussion has tended to throw out baby, bathwater and bath all at the same time.

There have been several different kinds of criticisms of forecasts and different standpoints from which criticisms have been made. To begin with, there are those who believe that the building of models and their use for forecasting and policy-making is in itself inherently dangerous. From this argument in some hands one almost gets the feeling that those who engage in model building must be part of some nefarious communist plot. The construction of a model puts an instrument in the hands of the state which leads it to believe that it possesses some substitute in the making of economic policy for the efficient working of markets in the economy. Even Keynes, around whose teaching most of the early economic models were built, did not suppose that the purpose of demand management was to dispense with the market place, in answer to which someone might correctly point out that Keynes didn't like models either. As I observe the conduct of economics today, both in the United Kingdom and the United States, I cannot observe this supposed correlation between model building and anti-market feeling. As a model builder in the United Kingdom, my own views on the importance of the market place are publicly recorded, and I cannot see the connection between them and my interest in building models. It cannot be denied that there are those who do see model building as an integral part of the equipment of state planning, but I cannot see even the most conservative of governments disposing of the whole process of economic forecasting, against which there are always some decisions that governments have to make. A real issue is not so much if forecasts are necessary at all, but how forecasts are used and acted upon, a subject to which I return at a later stage.

A second criticism of models for forecasting is that they are pseudo-scientific and serve only to confuse the public. This sort of criticism seems on examination to have a number of different aspects which may be briefly referred to. For some, this reflects the view that contemporary economics is largely irrelevant to the conduct of economic policy or, as a distinguished economist of our time once suggested, the only purpose of learning economics is to prevent oneself from being deceived by economists. For