

14.03.2024

**The role of economists in the social acceptance and design of
public policies***

Speech in acceptance of the Madrid Economists' Association's Distinguished
Member award

Madrid

Pablo Hernández de Cos

Governor

* English translation from the original in Spanish.

Vice-Chancellor of Economics at Universidad Complutense de Madrid, Dean/Chair of the Madrid Economists' Association, Chair of the General Council of Economists, members of the Economists' Association Governing Board, other dignitaries, ladies and gentlemen:

I would like to begin by thanking the Madrid Economists' Association for granting me the accolade of Distinguished Member. It is for me a great honour to receive this distinction, and to have been introduced, with his brilliant (albeit overly generous) *laudatio*, by my beloved teacher, mentor and friend, José Manuel González-Páramo, whose teachings have guided me both academically (it fell to him to supervise my doctoral thesis) and professionally, as he accompanied me during my time at the European Central Bank, exploring the inner workings and finer points of central banking in general, and monetary policy in particular.

I would like to take this opportunity to broach a subject that has become something of an obsession of mine,¹ but one that I feel must be addressed if we are to secure a more prosperous future:

What can and should we economists do to shape how public policies are seen by the general public, and the way in which they are designed by policy-makers?

A proper answer to this question would both help to highlight the contribution made by the economics profession to society and, above all, serve to improve the quality of public policy.

This subject and event also constitute the ideal occasion on which to pay much-deserved tribute to a man who belonged to this Association for 40 years, and who headed the Banco de España's Research Department for almost 25: José Luis Malo de Molina, who sadly passed away a few days ago. For a quarter of a century, a desire to contribute to the economic and social modernisation of our country through his advisory role at the Banco de España was ever-present in his endeavours. His work can be traced back to the tradition that began with Germán Bernácer and which culminated in Joan Sardà's Stabilisation Plan.

As I see it, the key contribution we economists can make in this area is to offer our theoretical and empirical expertise, with intellectual rigour and honesty, so that society may reap the rewards of evidence-based public policies. To this end, the policy-making process must be informed by a culture of evaluation that permeates the entire cycle from design to implementation.²

In democratic societies, this culture of evaluation would also help to make the actions of policy-makers and the outcomes they achieve more transparent, improving accountability and democratic oversight by parliament and the general public, and enhancing their legitimacy.

¹ Pablo Hernández de Cos. (2023). "[El economista y las políticas: el ejercicio de una disciplina que \(nos\) disciplina](#)". *Economistas*, 182

² Pablo Hernández de Cos. (2021). "Long-term considerations in economic policy. The role of evidenced-based policies." Speech in acceptance of the 2021 *Gran Cruz al Mérito en el Servicio de la Economía* awarded to the Banco de España by the General Council of Economists, 19 October 2021
<https://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/IntervencionesPublicas/Gobernador/Arc/hdc191021en.pdf>

As Agustín Carstens remarked in his *Premio de Economía Rey de España* acceptance speech,³ more efficient public policies with greater social legitimacy can help to increase trust in institutions. This is sorely needed if we are to overcome the climate of mistrust in institutions prevalent in so many industrialised countries today, and which has become particularly acute in Spain since the global financial crisis.⁴ A mistrust that, in turn, fuels polarisation and populism.

But this capacity our profession has to improve the social impact of public policies should not mask the challenges and limitations that stand in our way. I will now touch on five major challenges to the full-scale consolidation of evidence-based policy-making, along with a few suggestions for overcoming them.

The first challenge is to broaden the scope of our analytical framework

Broadly speaking, economists have paid insufficient attention to the political and administrative side of policy-making as a key constraint on policy design and implementation. Indeed, “political economy” stresses that an economics-based approach must be complemented by other sciences to ensure that policies have the maximum impact and social acceptance.

This complementarity is, if anything, even more important in the current context, in which some of the greatest economic shocks to hit us in recent years have stemmed from factors exogenous to the economic system, such as the pandemic or geopolitical tensions and conflicts. To better understand the causes and impact of these phenomena, expertise from other disciplines must be drawn into our analytical framework.

Similarly, economists have tended to underestimate the asymmetric and heterogeneous effects of government action and the differential effects arising during the transition towards a steady state. A more granular analysis is thus needed to explicitly account for this heterogeneity and the timing of policy impacts.⁵

This more detailed analysis would, for instance, help to identify which population groups might lose out from a particular economic reform, even where the outcome is positive overall, and, if seen fit, to set in place possible compensatory measures. This could help secure greater support from the general public and their representatives.

In any event, in order to broaden the analysis framework and bring in aspects from other disciplines, it would also be advisable to strengthen the coordination between public institutions and their analysis and research capabilities.

³ Agustín Carstens. (2022). Speech in acceptance of the *Premio de Economía Rey de España* instituted by Fundación Celma Prieto.
https://www.premiodeeconomia.org/f/webwpm/INF/Premiados/Ficheros/Discurso_Celma_Prieto_2022_web.pdf

⁴ According to the Eurobarometer (2022), only 10% of Spaniards say that they trust political parties. Among EU countries, this figure is higher only than those for France (8%) and Latvia (6%), and is similar to that for Greece (11%).

⁵ Alan S. Blinder. (2018). *Advice and Dissent: Why America Suffers When Economics and Politics Collide*. Basic Books.

Aware of this need, the Banco de España has always set great store by economic research as a means of supporting our functions and, for some years now, our analytical priorities⁶ have included research into the consequences of heterogeneity across individuals and firms. This approach even crosses over into the field of monetary policy, whose distributive impacts have also come in for greater attention in recent times.⁷

The second challenge is to equip ourselves with better data

Solid evidence can only be generated using quality, sufficiently granular data. The public sector thus has a pivotal role to play in data gathering, processing and dissemination.

This is particularly true in a context in which the ability to store and process data has increased exponentially, and in which the government has amassed a vast amount of information. The public sector cannot afford to fall behind here. In this regard, data sharing across the different levels of government would give a singular boost to our analytical and assessment capabilities.

Admittedly, Spain's multi-tiered system of government makes data gathering and processing a particularly complex task. But this could be addressed using explicit interoperability mechanisms and common criteria. Indeed, this complexity could represent a great opportunity to capitalise on an additional layer of heterogeneity in the data and the policies applied, providing useful evidence and ultimately paving the way for the sharing of public policy ideas and best practices across the different tiers of government.

Ensuring that these (duly anonymized) data are made available to the research community is also key to improving our expertise and enhancing transparency and accountability.

Spain has recently seen the launch of various initiatives in this regard, the Banco de España Data Laboratory (BELab) being one such example. Meanwhile, the National Statistics Institute (INE), the Tax Revenue Service (AEAT), the social security authorities, the Banco de España and the National Public Employment Service (SPEE) signed an agreement in February (to which other institutions may sign up later) to enable joint access to our databases for scientific research in the public interest.⁸

Nonetheless, there is scope for greater ambition in this area, both domestically and at a European and international level.

The third challenge concerns improvements to the institutional framework

A suitable institutional and legal framework is critical for public policy assessment. Here, Spain again has certain shortcomings, which limit not only the ability of government institutions to conduct thorough assessments, but also prevent the findings of external assessments from being fully leveraged. Nor is it just a question of public sector

⁶ See <https://www.bde.es/wbe/en/areas-actuacion/analisis-e-investigacion/contexto-y-prioridades/>.

⁷ O. Coibion, Y. Gorodnichenko, L. Kueng and J. Silvia. (2017). "Innocent Bystanders? Monetary policy and inequality". *Journal of Monetary Economics*, 88, pp. 70-89. <https://www.sciencedirect.com/science/article/pii/S0304393217300466>.

⁸ This initiative is in line with the European strategy for data, which aims to further build trust in data sharing, strengthen the data availability mechanisms and overcome the technical obstacles to reusing such data for altruistic reasons, such as research in the public interest.

shortcomings. Whether in the private sector or in civil society, compared with our European peers, institutions engaged in public policy assessment are also thin on the ground.

Admittedly, some progress has been made in recent years. For instance, in 2021 the Institute for Public Policy Assessment was set up, following the enactment of a new law institutionalising the evaluation of government policies. Furthermore, in that same year, the Independent Authority for Fiscal Responsibility (AIReF) set up a Government Spending Assessment Division, tasked with overseeing spending reviews and conducting assessments at the request of other public administrations. The recently announced Productivity Board could also play a role in this area.

Nonetheless, it is too early to say whether these changes will enable a culture of public policy assessment (both ex-ante and ex-post) to take root. It is important to stress here that institutional independence is the best means of ensuring that evaluations are made in accordance with objective and technical criteria, removed from the political opinions and interests of those who are being evaluated.⁹ Such independence must be legal, functional, personal and financial if it is to be effective.

Indeed, the existing independent public bodies have a key role to play in this area. At the Banco de España, we are committed to this culture of evaluation, whether through our role as advisers to the Government under the Law of Autonomy of the Banco de España, or through the assessment of our own activities under a regular programme of independent assessments, in which we submit our own actions to the scrutiny of reputable external assessors.¹⁰

A fourth challenge is effectively communicating our findings to the general public

Beyond the complexities inherent in economic analysis, such communication is hindered by a social, political, media and technological environment in which, for various reasons, immediacy trumps depth, emotion trumps reason, subjectivity trumps objectivity and polarisation trumps understanding.

Once again, it is essential that the institutions tasked with scrutinising public policy be strengthened to ensure that they are perceived as diligent and independent, thus enabling them to earn society's trust and influence social discourse. Furthermore, independence must go hand in hand with absolute assurances regarding the competence and integrity of their members, together with proactive transparency and accountability.

As economists, it is also our duty to be more open about the limitations of our analyses, be they theoretical or empirical. Economic research enables us to answer complex questions

⁹ See the Appearance by the Governor of the Banco de España, Pablo Hernández de Cos, before the Parliamentary Audit Committee on Democratic Quality, the Fight against Corruption, and Institutional and Legal Reforms of 22 December 2020.

<https://www.bde.es/wbe/es/noticias-eventos/actualidad-banco-espana/intervenciones-publicas/cargos/discursos-gobernador/comparecencia-gobernador-banco-espana-ante-comision-para-auditoria-calidad-democratica--lucha-contra-corrupcion-y-reformas-institucionales-y-legales-congreso-diputados.html>

¹⁰ The results of the Banco de España's evaluation programme can be found at <https://www.bde.es/wbe/en/sobre-banco/programa-de-evaluaciones/>.

ever more diligently and precisely. However, that does not mean we should give the outward appearance of certainty. This would not only be misleading, but also counterproductive.

First, we must be transparent regarding the level of confidence offered by both the theory and the empirical evidence within our research domains. We should also be clear about the implicit hypotheses and assumptions that underlie the economic models and econometric techniques used, as well as how they might affect our results. For instance, systematic use of sensitivity analysis to determine a range of results variability under alternative assumptions is a useful means of enhancing communication and mitigating uncertainty.

Second, it is essential to clearly delineate the distinct branches of economic analysis – positive and normative – that policy evaluation entails. Surveys of economists¹¹ reveal far greater technical agreement on positive economic issues than on normative ones. In truth, this is to be expected, given the considerable leap in conceptual complexity between “positive” economics (pertaining to the causal or influential relationship between two variables) and “normative” economics (the evaluation of measurements or results), where different preferences come into play: not only those of the recipient or user of the evaluation, but also those of the policy-maker or analyst.

Faced with this reality, it is not a question of economists discarding our social preferences or ideological assumptions, but rather of separating the two branches of analysis and presenting them to society individually.

In my view,¹² not everything in the public policy domain can rest on quantitative evidence or, “positive” technical judgements. Ideology has a key role to play by providing an ethical notion of what is good or bad for society. This is something that cannot and should not be subject to evaluation since it is a matter of personal and social preferences. Ideology plays a subsidiary role too, one that to my mind should be increasingly relegated as our analytical capabilities expand: it offers tentative starting points as to how, a priori, certain matters might be addressed when no sound evidence is yet available.

Indeed, our differences of opinion (both in the profession and, more to the point, in society) very often stem not from disagreement over the expected impact of a particular policy in each relevant dimension, but rather from the fact that we attach different weight to each of those dimensions.

Admittedly, economists, philosophers and social thinkers such as John Rawls and Vilfredo Pareto, among others, offer more or less universal principles to help us assess this complexity and multidimensionality from an ethical point of view. However, from a practical standpoint, I believe we must be mindful of the limitations these theoretical approaches have. Indeed, it should be a priority to quantify and to bring to the forefront of the public policy debate the trade-offs inherent in the objectives, which, while they may be desirable, may occasionally discriminate (at least in the short term) or differentiate between certain population groups.

¹¹ Agnès Benassy-Quéré, Olivier Blanchard, Jean Tirole (2017). *What role for economists in policy-making?* Notes du Conseil d'Analyse Économique, volume 42, issue 6.

¹² Pablo Hernández de Cos. (2021).

In my view, understanding what lies at the heart of legitimate disagreements in this way can truly enrich the quality of public debate and mitigate the growing social polarisation, which ultimately hinders our ability to engage in any meaningful debate that might yield more and better ideas to advance public policy.

A fifth challenge is to improve the economic and financial education of the public at large

If we hope to better communicate our policy evaluations and make them of more practical relevance, not only should we make them more widely available and their findings more accessible for the general public and economic policy-makers, we should also drive the demand for, and utilisation of, such policy evaluation among individuals.

After all, we are talking about evidence that is hard both to obtain and to understand in terms of the resulting outputs. In most cases, the aim is to build a counterfactual scenario (a parallel reality that does not actually exist) and identify its practical implications.

Hence, in order to build a culture of public policy scrutiny that leads to evidence-led policy design, and in turn strengthens institutional legitimacy and trust, an appropriate level of economic and financial literacy among the general public is a must.

If the public has a critical understanding of the costs and benefits associated with different courses of action, the task of building a culture of evaluation and greater accountability becomes easier.

Moreover, not only would economic policy-makers see the long-term benefits in terms of overall prosperity of a genuine commitment to evidence-led policy, they would also appreciate the potential short-term political rewards of incorporating policy evaluation findings into their decision-making, insofar as the general public is able to understand them.

However, Spain does not start from a position of strength. According to the results of the latest Survey of Financial Competences, published by the Banco de España in 2023, large swathes of the general public have no grasp of basic economic concepts. 35% of Spain's adult population do not properly understand the effects of inflation. 60% are unaware of how compound interest works and 48% do not understand the principle of risk diversification.

And while some progress has been made compared with five years earlier,¹³ we all appreciate the implications of this for the public's ability to understand and judge policy evaluation findings, which, as I have said, are multidimensional and complex.

How can we improve this starting position?

The Banco de España, the National Securities Market Commission (CNMV) and the Ministry of Economic Affairs, Trade and Enterprise – together with numerous public and private partners, including the Madrid Economists' Association and the General Council of

¹³ For all three questions (on inflation, compound interest and risk diversification), the overall percentage of correct answers rose from 51% in the 2016 round to 53% in 2021 (an increase that was statistically significant).

Economists – run a Financial Education Plan, which aims precisely to enhance the general population’s economic and financial literacy.

However, to make real progress towards this goal, economic and financial knowledge should be embedded more deeply into the primary and secondary school curriculum, as recommended by major international institutions.

By way of conclusion, I would reiterate that building a culture of public policy evaluation – one that fosters policy-making based on the best available evidence – is a complex undertaking fraught with significant challenges.

Chief among them, the need to: i) broaden the analytical framework that we economists use for public policy evaluation to better incorporate the heterogeneity of policy impacts, their performance over time, political economy considerations and the insights offered by other disciplines; ii) obtain more and better quality data to enrich such studies; iii) enhance the institutional framework that underlies public policy evaluation; iv) more effectively communicate complex findings to enrich the quality of public debate; and v) drive the financial literacy and economic education of the public at large.

We economists, as individuals, and independent economic institutions, such as the Banco de España, can make meaningful contributions to overcoming these challenges. This would allow us, as a country, to enhance the impact and efficiency of public policies, improve their popular legitimacy and foster institutional trust.

We can help to shape a fundamental consensus that, while acknowledging and respecting legitimate ideological differences, serves to set ambitious but attainable collective goals to usher us more confidently towards the future.

In one of his last interviews, José Luis Malo de Molina warned that “Spain is at risk of paralysis by perpetual confrontation, incapacitating it in economic terms”.¹⁴ The structural reforms that Spain needs to get back on track and converge with our European partners must be sustained over time if they are to be effective. Hence the need for widespread public backing, which is more likely if the impacts of such reforms are communicated objectively and clearly through high-quality independent scrutiny.

In short, I believe we economists can do much to improve the quality of Spain’s public discourse on matters of crucial import to our fellow citizens’ prosperity and future, and thus to forestall that risk of incapacitating paralysis. I encourage you, therefore, to persevere in this task.

Thank you very much.

¹⁴ Interview with José Luis Malo de Molina, Diario El Mundo, 8 August 2021.
<https://www.elmundo.es/economia/2021/08/08/610d5faefdddf9c808b4614.html>