

## **Network industries: who decides?**

### **The role of academia in public policy**

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*“I have laboured carefully not to mock, lament, or execrate, but to understand human actions; ...”* Baruch Spinoza, *Tractatus Politicus*, 1677.

Let me start by congratulating the organisers of this workshop on three counts.

First, for the establishment of ACCIS, which I hope will offer a productive framework for focused thinking on difficult and important policy questions.

Second, for the sagacious choice of theme for today’s session: “who decides?” That is a question that has relevance right across the spectrum of economic policy at the moment.

Third, for the timing. The front page of Monday’s Times (9 March 2009) has a pointer to an inside article (by Alice Thomson) which says *“American academics are sought after in public life. Here they are derided.”* Derided is probably the wrong word – it is probably more a matter of indifference than of derision (see later) – but Ms Thomson makes some telling points that are relevant to what I am going to say today.

#### ***A critical question***

As luck would have it, I am in the middle of writing a paper on styles and philosophies of regulation which, among other things, uses the “who decides?” question as an organising principle. A quick summary of one or two points from that paper will help to set the scene.

From the ABCs of economics, we can answer the question by saying that in competitive markets large numbers of people “decide”, in the sense that they each have some influence on outcomes, but that no one person or interest dominates. Outcomes emerge from the interaction of a large number of individual influences. The pattern of economic activity is determined by the many, not by the few.

In contrast, in monopolistic contexts smaller numbers of people are typically determinative. And this applies to monopolies of all types, whether in the private or public sector, and including government itself (the ultimate monopoly) and its agents (e.g. regulators). In consequence, monopolies are generally ‘dumber’, by a large margin, than competitive markets.

This is not because the individuals involved are less clever. Rather it is a consequence of the economics of information – the information set influencing decisions in monopolistic conditions tends to be much, much smaller than the

information set influencing decisions under more competitive conditions – and also of the poorer incentives surrounding the discovery, interpretation, transmission and use of information that tend to be associated with monopoly.

Lest anyone think that this emphasis on ‘information and incentives’ is an original contribution of modern academia, here is John Stuart Mill writing on the issue in *Principles of Political Economy*, published in the same year (1848) as the Communist Manifesto:

*“... people understand their own business and their own interests better, and care for them more, than the government does, or can be expected to do.”*

*“All the facilities which a government enjoys of access to information; all the means which it possesses of remunerating, and therefore of commanding, the best available talent in the market—are not an equivalent for the one great disadvantage of an inferior interest in the result.”*

*“It must be remembered, besides, that even if a government were superior in intelligence and knowledge to any single individual in the nation, it must be inferior to all the individuals of the nation taken together.”*

To repeat, and to avoid any potential misunderstanding, the underlying mischief here is the existence monopoly; of which government is a particular type.

### ***Relevance to infrastructure***

During the 20<sup>th</sup> century, infrastructure came to be thought of as something that is supplied under monopolistic conditions – the textbook theory of natural monopoly being one aspect of this tendency – although Victorians building railways in the century before might have had some different ideas.

Modern challenges and modern technologies are, however, arguably moving things toward circumstances closer to those of the 19<sup>th</sup> century than of the 20<sup>th</sup> century, at least in terms of the uncertainties to be confronted by investors. Thus, whereas communications access to the home was once the preserve of fixed line telephony, we now have cable and wireless access networks, and also the technical capability of using electricity wires. These are *competing* infrastructures; and, when there is competition, you can put your money in, but you won’t necessarily get your money out.

A quick glance at academic writings covering relevant episodes in economic history will quickly illuminate the following, generally forgotten lesson: major infrastructure projects are frequently characterised by heavy financial losses. To take just one example, railroad bankruptcies were very common in the nineteenth century and in the first half of the twentieth century.<sup>1</sup>

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<sup>1</sup> See, for example, Daniel Schiffman, “Shattered Rails, Ruined Credit: Financial Fragility and Railroad Operations in the Great Depression”, *Journal of Economic History*, Cambridge University Press, 2003.

Infrastructure competition will no doubt be an area of great interest for ACCIS as its research programme develops. It is not an easy area, and it would be unwise to expect that the forms of competition that emerge and develop will be close to those found in economics textbooks, let alone to that peculiar set of circumstances misleadingly called perfect competition, to which we still tend to be introduced when first taught economics.

Infrastructure competition will be important, however, for the two reasons already mentioned. It (competition) expands the set of information brought to bear on decisions, and it tends to create stronger incentives for the effective discovery, interpretation, transmission and use of economically relevant information.

### ***Where does academia come in?***

In considering the role of academia, let me work with a rather old fashioned notion that does not restrict the term to universities, colleges, research institutes and other formal institutions of learning. I will take an academic to be anyone whose *primary interest* lies in the development and transmission of those types of knowledge which can roughly be characterised as ‘universal’ (potentially widely applicable) and ‘public’ (i.e. accessible by all, at least in principle). To bypass some tricky ground, let me also simply take ‘knowledge’ to mean structured or interpreted information. *Intellectuals* would probably be a better word to use than academics, but I will stick to the title given.

You will see that this is all in shorthand, but I hope the sense of the points being made is clear. Academics are concerned with a sub-set of knowledge that has potential relevance – and therefore ‘value’ – across a wide range of different contexts, whereas the vast bulk of human knowledge/information is ‘private’ or ‘idiosyncratic’ (the typology here is again a gross simplification, but it is sufficient for the issues of the day).  $E=mc^2$  is universal, public knowledge; knowing whether the neighbour’s barking dog is liable to bite is idiosyncratic, private<sup>2</sup> knowledge. Both can have economic value (getting bitten has costs).

In relation to policymaking then, the key roles of the academic might be said to be the bringing of existing ‘universal’ knowledge to bear on the relevant decisions, and to seek out new knowledge that might be brought to bear on policy decisions in the future. These activities almost invariably require that attention be also paid to the (potentially much larger) set of relevant, idiosyncratic knowledge. Decisions are made in contexts, and every context has its idiosyncratic features. *Universal information/knowledge and idiosyncratic information/knowledge are, in the economic sense, typically complementary in decision making – the availability of one increases the value-in-use of the other.*

### ***Two academic styles***

The context-specific aspects of decision making can cause problems for some academics. The incentive structures in today’s universities point toward career

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<sup>2</sup> It will be obvious from this that ‘private’ is used differently from ‘individual’. Several people may know about the dog: the point is simply that the group sharing the knowledge is limited in size – it is one of society’s small platoons.

development via the writing of papers to be peer reviewed and published in journals that are read by other university lecturers and professors. University folk tend to write for each other; and sometimes readership is very small, and sometimes the discourse is far from accessible.

Journal articles and conference papers are easier (less costly in terms of time and effort) to produce if context-specific information is kept to low levels, and if the centre of gravity of research lies toward ‘abstraction’ (from context). In economics, the great 20<sup>th</sup> century writer Joseph Schumpeter referred to this tendency as the ‘Ricardian Vice’, after David Ricardo, the great 19<sup>th</sup> century political economist, who pioneered a relatively narrow approach to economic policy issues, focused on detailed analysis of small ‘economic systems’ which abstracted from context to a much greater degree than the preceding Grand Masters such as Smith and Hume had done (Hume recommended the study of history as a means of exploring and understanding the actions and effects of a relatively constant human nature when placed in a wide variety of different contexts).

It is this type of abstract approach to knowledge, which dominates most contemporary economics teaching, that gives rise to the popular image of the academic in an ivory tower, somewhat detached from reality. The stereotype is not always inaccurate.

One of the major points that I want to make today is that the over-abstract style of reasoning is generally of little or no value in policy making, although in the hands of a master it can influence the general intellectual climate (see Ricardo on free trade, where the simplified analysis was on broadly right lines; and on economic growth, where the simplified analysis was on wrong lines.)

Things are very different in relation to the alternative academic style, which is based upon the application and development of universal knowledge in specific contexts, where universal and idiosyncratic knowledge are combined (as another piece of shorthand, let me call this approach ‘contextual realism’). Because, as already stated, the two types of knowledge are, in an economic sense, complementary – the economic value of one is increased by the use of the other – it is at this interface between the abstract and the concrete that the value of the academic contribution to policy development is likely to be at its greatest.

In relation to my own discipline, a similar point can be drawn from Alfred Marshall’s famous statement that “economics is an engine for the *discovery of concrete truths*”: the engine is universal, but the truths discovered tend to be grounded in particularities. And my own experience is that it is a very powerful engine indeed when it is applied to sufficiently detailed sets of facts, but that it is a weak and weedy thing when over-abstract.<sup>3</sup>

I hope that ACCIS, by virtue of being grounded in the realities of specific, network infrastructures, will develop the second academic style; and for those with this

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<sup>3</sup> For a fun introduction to an academic, contextual realist approach to things, see Matthew Parris’s “Silly doorsqueak theory”, which illustrates how consideration of the idiosyncratic and specific can facilitate the discovery of information/knowledge with more general applicability.  
[www.timesonline.co.uk/tol/comment/columnists/matthew\\_parris/article5679226.ece](http://www.timesonline.co.uk/tol/comment/columnists/matthew_parris/article5679226.ece)

inclination, the conduct one group of professionals might, I suggest, offer some guidance in the endeavour. The group I refer to is the judiciary.

Judges are constantly faced with the task of getting (relatively) quickly on top of the idiosyncratic facts of new cases, which are often voluminous. They do not pretend to be experts in those facts, and are generally more than willing to admit their ignorance. In this, judges are quite unlike stereotypical “experts”, for whom any admission of ignorance in his/her specialist field is can be an *angst* ridden exercise – a social (because an “expert’s” social standing is perceived to be linked with his/her “expertise”) and psychological tendency that can turn into a real barrier to further learning.

The acknowledgement of ignorance is much to be recommended, since it provides a sound base for the task of acquiring the relevant detail. Later on, of course, the judge will apply the ‘universal’ principles of the law to the specific case. Young economists could do a lot worse than follow this kind of procedure.

### ***Out of the ivory tower***

The approach that I am suggesting is most efficacious for academic thinking about policy issues implies that, wherever it is that the academic is located, it is not in an ivory tower. In fact, to the extent that the academic is firmly grounded in dealing with knowledge of Realities or, put another way, of the Nature of Things, he/she will be dealing with very practical matters. The social scientist asks questions like: *What is going on here? How can we understand what is going on here? How can we explain it?* Only when these questions have been addressed will attention be turned to even more difficult, forward looking policy questions like: *What might we expect to be the consequential outcomes and likelihoods, C, of taking action A?*

In working with such questions, the academic taking a ‘contextual realist’ approach will very often find himself/herself in much closer contact with Reality than ‘practical’ men and women working on the same policy problem. Economists have, of course, always liked to think that this was so – even when taking abstract approaches to problems that meant that it wasn’t actually so – and they have always been quick to quote from the concluding paragraph of the *General Theory*, where Keynes is in full rhetorical flight:

*“Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back.”*

Well, that’s true up to a point Lord Keynes; but there’s much more too it than that.

### ***A Pilgrim’s Progress (reduced version) for the would-be policy academic***

When the aspiring policy academic makes his/her assessments – engaging in the challenging but sociable<sup>4</sup> discourses of the republic of scholars as he/she proceeds, along the way – and concludes, with a reasonable but not exaggerated degree of confidence, that the consequences of taking course of action A will be C (C is here a set of potential outcomes with associated likelihoods), a surprise may await. Quite frequently, he/she will find others declaring that no, that is not the case, but rather that the consequences of A are B. (At this point, I can add an autobiographical element: it was just such circumstances that led to the founding of the Regulatory Policy Institute, nearly twenty years ago now.)

Following Spinoza, and in order to go beyond Keynes, let us ask the academic questions: *What is going on here? How can we understand what is going on here? How can we explain it?* Those are interesting questions from a purely academic standpoint, where the primary interest is in the development of knowledge, but the answers are also of great significance for the conduct of public policy. Understanding policy processes can help in the improvement of those processes.

Let me therefore look at some of the potential explanations for the prevalence of the false ‘A implies B, not C’ position, starting with the least interesting.

#### *Complexity and reasonable differences of opinion*

Policy issues can be complex and difficult and, whilst it may be that case that there is strong reasoning and evidence to support the proposition that action A will lead to C, the uncertainties may be such that the view that A will lead to B can not be ruled out as being unreasonable.

There are various sense checks that can be applied to determine whether or not this is the case in a particular situation (before testing things out before a judge in a judicial review of the policy decision). If ‘A leads to B’ is a serious contender in the truth stakes, its proponents should be willing to try it out in intellectual combat against those who disagree. Competition is not just for markets: it is for policy makers and academics too. Contests between ideas and arguments are important drivers of the discovery process.

Reluctance of policy markets to engage (intellectually) on the issues, reluctance to seek out alternative views and second opinions, and avoidance of challenge, are all potential, diagnostic indicators that the denial of A -> C might be outside a reasonable range of disagreement.

Similarly, when denial of A -> C is unreasonable it will often be the case that there are correlated *process failures* that can be observed in prior events that have led up to the point of decision. The documentation may not be quite right, or some of it may be missing, or meetings are cancelled, or private exchanges are substituted for collective discussion, and so on.

#### *Superstition*

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<sup>4</sup> This may be thought to be utopian, in that discourse in universities can be petty and vindictive. I have, however, buried this issue for today’s purposes by my definition of academia, which excludes a lot of what goes on in universities.

The default mode (level one) of human thinking appears to rest on some fairly basic and simple heuristic patterns of thought, and these have increasingly been studied and categorised by psychologists whose insights and results have established the principal, distinctive themes of behavioural economics. In this default mode of thinking, confronted with complex and uncertain Realities, we tend to look for simple and direct connections between events, and simple, direct connections between actions/decisions and events/consequences. Subtle and diffuse connectivities are ignored, and simple, direct causalities tend to be inferred where no such linkages actually exist, where the claimed links are fictitious. This is Superstition, and it is the academic's principal adversary.

Economics is particularly vulnerable to Superstitious thought, probably because it relates to the kind of everyday things and events that the default mode of thinking evolved to handle. There is an overlap in the subject matter of the two, and what David Henderson called 'do-it-yourself economics' can be found in every bar in the country (and lots of other places too). There are good (as well as bad) reasons for physics envy among economists: those physicists don't have to deal with 'do-it-yourself quantum mechanics' (the worst it gets is a silly book or a TV programme on Schrödinger's cat, with the compensating advantage of some good theatre from Frayn and Stoppard).

In my younger, teaching days, it was quite common for students to come and have a moan that they did not seem to be learning anything very much from their time in the South Midlands. This usually happened around the mid-point of second year micro-economics, which is a pretty grim stretch of the road in most universities. My advice was always the same: get round to the King's Arms, have a drink, start discussing economic issues with people at the next table (or standing by the next bit of the wall – the KA was generally crowded), and start counting the fallacies.

Economic and social systems, like elaborate networks, tend to exhibit deep and complex patterns of connections, well beyond the detailed comprehension of a single mind. The Founding Fathers of political economy recognised this, and one of the implications has been beautifully expressed by John Kay in a relatively recent essay<sup>5</sup>:

*"It is remarkable, and wildly counterintuitive, not only that the question "Who is in charge of the supply of bread to New York?" has no answer, but that the supply of bread to New York is better managed by a system in which there is no answer than by one in which there is."*

Superstition cannot tolerate the resulting uncertainties, ambiguities, and counter-intuitions. It prefers simple causalities, simple explanations, simple linkages. The invisible hand must be made visible. If we are worried about the supply of bread to New York, Superstition says we should appoint a food Czar. If we are worried about security of supply in energy, Superstition says that we should give someone responsibility for ensuring security of supply; and that will be that – problem sorted. Central planning was the Great Economic Superstition of the 20<sup>th</sup> century, and, like other superstitions, it is making something of a comeback in these uncertain times,

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<sup>5</sup> *The failure of market failure*. Prospect, August 2007.

when the Siren calls of fictitious simplicities are again being heard by over-sensitive ears.

The persistence of Superstition in policy making is greatly assisted by the very modern focus of government on ‘communications’. There is constant pressure on policy makers to provide a simple narrative, or a line-to-take, to the point where it has become almost an obsession in London SW1. The output from this process is aimed at the media, which in turn is responding to the man/woman in the Clapham omnibus. And when this legendary citizen turns on the TV or picks up the paper, his/her mind will typically be in the default mode – he/she will not be looking for intricate analysis of the physical and economic characteristics of highly connected networks – so that is how the discourse will have to be framed.

In my experience, we have not yet achieved a satisfactory resolution of the requirement to provide the public with the information about policy making that befits a democracy with the requirement that policy makers be free to work, without pretence, on issues associated with the undesigned design that Adam Smith called the invisible hand. Top quality journalism is the nearest we get to a better state of affairs. Unfortunately, however, the readers of Daniel Finkelstein and/or Matthew Parris have not yet been sufficiently influential as to have had a major impact on regulatory discourses.

It is also not just public discourse via the media that is dominated by the default mode of thinking. More specialist economic discourse can suffer too. Economists also can prefer certainties, and, when thinking of themselves as “experts” (rather than scholars), can come to associate their professional standing with the models that they use (which is another reason not all university folk are academics).

I have, on several occasions, given seminars where I have made the point that the chief benefits of competition lie in *Discovery*. It is effectiveness in the “accumulation of information/knowledge”, not in the accumulation of capital or in the efficiency of static resource allocation, that is the chief performance characteristic of market economies, relative to alternative economic systems. The Founding Fathers talked of “economic progress”, which is a good term, not much used nowadays. *Progress* is to be seen in terms of the accumulation of information/knowledge; and economic progress is the accumulation of information/knowledge with economic value.

The resistance to this message is striking. The notion that it might not be possible to quantify, in any strict sense, the ‘benefits of competition’, or indeed of any other aspect of public policy that bears upon *Discovery* and *Progress*, that it might not be possible to measure the unknown, seems to strike fear in the hearts of young social scientists. “If we recognise the limitations of the economic models, what will we then do?” is the question most usually asked. “Look at the facts, think, reason, discuss and discover” (i.e. give up Superstition) does not tend to be regarded as an acceptable answer. The Demon of *Pretence* casts a strong spell.

Yet, in the words of Basil Fawcett, all this should come from the school of the “bleedin’ obvious”, and recognition of the limits to what can be truthfully said (i.e. recognition of the boundaries of knowledge) is not restricted to any one strand of economic thought. It is there in the writings of the Founding Fathers, in Frank Knight

at the beginnings of the Chicago School, and nearer our own time it has been particularly emphasised by Hayek, who wrote of *Competition as a discovery procedure* and titled his Nobel lecture *The pretence of knowledge*. From a different school of economic thought, Keynes indicted the Ricardian strand of economics (the dominant strand) as “*one of these pretty, precise techniques which tries to deal with the present by abstracting from the fact that we know very little about the future.*” None of the above had much difficulty practising a Superstition-lite economics, and neither should we.

### *Deception, or cover-up*

I have dwelt on the perils of Superstition because it is, in my view, both the major obstacle to the Pilgrim’s Progress, and the one about which an economist might be expected to have the most to say. Let me now quickly mention a few of the other Demons that might confront the would-be policy economist, but leave more detailed exploration for another day.

The cover-up is common in government, and there are academic theories of regulation that stress its centrality in the policy process. One characterisation of it is as follows. The policy maker has certain publicly-declared objectives. Achieving B would manifestly be a contribution to those objectives. The policy maker claims that he/she is doing A because it will lead to B, contrary to reason and evidence which suggests that C is a much more likely set of outcomes – where C, in this case, represents either detriments or an irrelevance when judged against the declared objectives. The A -> B argument is motivated, however, by the existence of other factors that lead to a preference for A, but which are recognised to be illegitimate according to the declared public agenda. Let me call these factors the “unofficial agenda”.

The items that might make up the “unofficial agenda” are legion and varied. Corruption of various sorts (by money, by power) is one of the most studied; but it could be something as simple as vanity. One interesting situation that I have been involved in concerned a group decision, somewhere in Westminster, to pursue a course of conduct that could be expected to cost the public, net of consequential benefits, hundreds of millions of pounds in inefficiency. A young economist sitting next to me whispered “*This is how it must have been in the Soviet bloc. We are all going through the motions, but nobody believes.*” The atmosphere was heavy and the discussion dull. Discussion of the unofficial agenda was off limits.

To the extent then that the academic-in-policy retains a primary interest in the transmission and development of knowledge, and that this causes him or her to speak out for the proposition that A can be expected to lead to C, the Pilgrim can expect to have to be willing to display some valour and to take a stand against Demons like Corruption and Vanity.

At this point, you may be beginning to detect the bad news that this is not necessarily an easy life. But don’t at this stage be overcome by Discouragement: the ending is happier than taking hemlock.

### *Delusion or self deception*

Human beings have a remarkable propensity for self deception. Again, the psychologists have much to tell us about this phenomenon, and here I will simply make the observation that it is quite common to find policymakers saying that they believe doing A will lead to B, *and meaning/believing it* – because (and once more for a possibly wide range of reasons) they want it to be true that doing A will lead to B.

It is unfortunate that Al Gore's activities have turned it into a cliché, but it remains the case that not all truths are convenient; and this gives rise to a classic role for the academic, which is to confront decision makers with inconvenient truths; with the trade-offs that actually exist; in short with Realities.

The role is an important one because the exercise of power, detached from adequate confrontation with Realities, tends toward Delusion: it is one of the Corruptions of power.

### *Bullshit*

Finally (for today at least) we come to my favourite of the Demons – much less sinister than Superstition, but dangerous to Progress in its own way. Following Professor Harry Frankfurt, Bullshit is here taken to mean statements that are made in conditions of indifference to the truth. It is said that A → B, but there is no self deception involved, for the simple reason that the sayer does not care whether it is true or not (and so there is no call for deception).

The *Wealth of Nations* was written by a Professor of Moral Philosophy at Glasgow University, and it is a very long book. *On Bullshit* was written by a Professor of Moral Philosophy at Princeton University, and it is a very short book. In their different ways, however, they show why the social scientist should have some grounding in moral philosophy (as well as in psychology – nobody should pronounce on the economics of health policy, for example, until they have some familiarity with the research programmes that have developed from the pioneering work of Daniel Kahneman and Amos Tversky).

For those who don't know it, here is the opening of Frankfurt's book/essay, which could only have been written by an academic, and should make scholars proud of their calling:

*“One of the most salient features of our culture is that there is so much bullshit. Everyone knows this. Each of us contributes his share. But we tend to take the situation for granted. Most people are rather confident of their ability to recognize bullshit and to avoid being taken in by it. So the phenomenon has not aroused much deliberate concern, nor attracted much sustained inquiry.*

*In consequence, we have no clear understanding of what bullshit is, why there is so much of it, or what functions it serves. And we lack a conscientiously developed appreciation of what it means to us. In other words, we have no theory. I propose to begin the development of a theoretical understanding of bullshit, mainly by providing some tentative and exploratory philosophical analysis. ...”*

What comes thereafter does not disappoint.

Like Supersitition and Delusion, but unlike Deception, a major risk of Bullshit is that it can lead to a detachment from Reality. Indifference to truth can lead to difficulties in detecting where the truth lies in circumstances where such detection might be very important indeed. That is, Professor Frankfurt's observation that most people are rather confident about their ability to recognize Bullshit and to avoid being taken in by it, is, in most cases, probably just Delusion or self deception. Too much spin, too many narratives, too many lines-to-take, can cause a person to lose his/her bearings in Reality.

Reason recognises the limits of knowledge, and recognises the limits of its uses. Bullshit does not, since it is indifferent to such matters. In consequences it tends to excess. And we have recently discovered that it is not just SW1 that has a high Bullshit count: London districts further east, which specialise in matters financial, appear to have been full of it too.

### *Can academics be useful?*

You will gather from the above that I believe that the would-be policy academic, seeking to subject public policy decisions processes to the influence of our cumulative knowledge of Realities and of the prospects for potential growth in that knowledge, faces a challenging task. For most of the time, the academic can expect to be ignored; but that does not mean that the task is fruitless – sometimes it can take a generation or more for ideas to take root.

By way of example, and from my own world of regulatory studies, I have attached two excerpts from pieces written in 1987 and 1990 (and published a little later -- no electronic publication then). The first is from a short paper by Professor Sam Peltzman, a leading light of what has probably been the world's foremost school of regulatory economics, at the University of Chicago. The second is the closing paragraph of a paper co-authored with Professor Sir John Vickers, looking forward to the prospects for electricity privatization in the UK. In both cases, the theorizing looks self evident and obvious now – it has become part of the public discourse – but it wasn't then (State ownership of banks? With Reagan at Thatcher in full flow? From the University of Chicago, home of monetarism? Climate change as a central strand of public policy?), and part of the task of the policy academic is to smooth and quicken the transitions from wild counter-intuitions to common sense (i.e. discourse in the default mode).

And so, finally, I turn to the more practical, day-to-day aspects of policy making, which ACCIS will no doubt also be studying and contributing to over the coming years. Is it possible for academics to make major contributions to public policy? Can it be done?

The question takes me back to a joke from the Senior Common Room at Hertford College, Oxford, a favourite of the then Principal, the late Sir Geoffrey Warnock, also sometime Vice-Chancellor of the University, and another moral philosopher from the North. It is a very short story for contextual realists. A young man and an old man are sitting on a park bench. The young man asks the old man "Do you believe in

baptism by total immersion.” There is a long pause. Then the old man replies. “Do I believe in baptism by total immersion? Yes son, I do: I’ve seen it done.”

In relation to the potentially benign influence of academics on policy development, I’ve seen it done. Think of the regulation of newly privatized utilities, and think of the contributions of Sir Bryan Carsberg, Sir Ian Byatt, Stephen Littlechild, Michael Beesley, Eileen Marshall, David Currie, and several others, all academics both during and (for those who left) after their formal tenures in the university sector. And a few years ago, at a seminar organised by Ofgem, when around the table sat academics industrialists and civil servants who had come together to discuss one of the most difficult and complex sets of issues in energy policy, Professor Len Waverman, then at London Business School (now back home in Calgary), who was co-hosting the event said something along the following lines: “*When I joined the Ofgem board, I expected to find just another regulatory bureaucracy. Instead, what I found was something much more like a university, dedicated to an approach that I will call hard-headed intellectualism.*” This was in a time when the *Economist* could describe UK energy policy as the poster-child of global liberalisation.

Professor Waverman’s remark touches on a puzzle that has intrigued me for a long time. During my lifetime I have had the privilege of participating in discourses in universities, at corporate board tables, and at tables within government. During that time, there has, in the public sector, including in the universities, been an incoming tide of what is usually described as managerialism, which has seemed vaguely to have been motivated by the belief that this was how the private sector operated.

The puzzle was brought home most strikingly when my *Alma Mater*, Cambridge University, invited consultants in to look at its structures. The consultants concluded that there appeared to be no coherent management structure, and that something ought to be done about that – rather in the manner that a consultant flying over New York might have concluded that the city lacked a management structure for ensuring the bread supply, and the Mayor would be well advised to hire someone to organise those supplies. The fact that, over a sustained period – even longer than the period of sustained daily, weekly, monthly, yearly supply of bread to New York – the University had put in a rather decent intellectual performance (at least for an institution based in East Anglian city of modest size) did not seem to register as significant on the managerialist radars.

Yet the discourses at the private-sector board tables were not like the ‘public sector management’ that was being introduced into the universities, and the better the private company the less like ‘public sector management’ those discourses were: they were much more like old-fashioned university seminars. And the same was true of the discourses at Ofgem in its salad days of hard-headed intellectualism: there was an issue; there was protracted discussion of the issue; the discussion was well grounded in the factual context; anyone could chip in, from the newest recruit to the top dog; there was an almost tangible interest in the use and development of knowledge (there were no easily-adaptable precedents for the design of liberalised energy markets); there was a sense of the limits of knowledge and of what could reasonably be done; and there was a strong commitment to keeping going until satisfactory progress had been made, or alternatively until it was concluded that this was a hole that should be dug no more.

Let me conjecture that the failure of managerialism, and the success of the alternative approach – call it policy-making by seminar – that I have only briefly sketched out lies in the nature of the problems that public policy is required to address, at least at the higher levels of policy making. The issues are complex, involving the assessment of potential changes or disturbances to large-scale webs or networks of connected actions and events. Managerialism is designed for simpler problems, where the causal chains are simple and direct, and are at or close to a level of simplicity and directness that can be reasonably be addressed via the default mode of thinking. When , however, the managerial approach is used for the bigger stuff, I conjecture that it will be usually found to be closely associated with one or more of the Demons of Superstition, Delusion, Deception, Bullshit, or Pretence.

Hard-headed intellectualism is currently in short supply in the UK public sector, and it is unfortunate for our future welfare that the current recession offers a candy-shop of treats for managerialists and central planners. Establishing the right conditions for effective public policy sometimes appears to be an entropy-defying exercise; but then so is the human project as whole, and there are some grounds for hope, if not for optimism. There is such a thing as Progress, and at its heart lies the expanding collective (but not collected) information set and knowledge base, to which academia has contributed so much over the centuries, and to which it is capable of contributing much more in the future (if it can survive the stifling embrace of Stalinist public sector management).

## Annex

*“There is also room for SOEs [State-Owned Enterprises] where the government's political objective of transforming monopoly rent into subsidies runs into severe agency problems. An emerging example of this may be banking, where SOEs have so far been only sporadically important. Here governments, more or less everywhere have guaranteed, de facto or de jure, the banks' liabilities, so that the banks' cost of acquiring them is essentially identical to the government's own cost of debt. The putative motive for this subsidy is to use the banks as the government's agents for providing a cheap, liquid substitute for government money. The quid for this quo is that banks should refrain from using their access to the government guarantee simply to maximize profits. In some cases, this has meant that banks (or similarly privileged institutions) were supposed to channel credit to socially "worthy" sectors, like housing. But, the inherent difficulty of regulating the flow of credit among sectors has always limited this form of cross-subsidy. The more relevant restraint on banks has been that they should not take the full degree of risk that their guaranteed depositors' lack of concern would permit and make attractive. However, banks in many countries have been demonstrably unable to be bound by that restraint. The recent sharp increase in loan losses and erosion of bank capital is the most obvious symptom of the breakdown of the restraint on using the government guarantee to acquire risky assets. In the U.S. this has already led to an increase in government intervention. One large bank has become a SOE and the guarantor agency has, willy nilly, gotten into the business of running a large portfolio of distressed loans. It is still unclear whether resolution of this agency problem will entail transfer of many more banks to state ownership. But, at the least, the problem is bound to attract increased regulation of bank portfolios. And the general rule that SOEs flourish in regulated markets should not be ignored.”*

Sam Peltzman, “The Control and Performance of State-Owned Enterprises: Comment”, paper presented at a conference on Privatization hosted by the Bradley Policy Research Center, University of Rochester, New York, November 1987, and published in Paul W. MacAvoy, W.T. Stanbury, George Yarrow and Richard J. Zeckhauser, *Privatization and State-Owned Enterprises: Lessons from the United States, Great Britain and Canada*, Rochester Studies in Economics and Policy Issues, Kluwer Academic Publishers: Boston, Mass., 1989.

*As a result of increasing public policy concern about the effects of atmospheric emissions of waste gases ... environmental regulation can be expected to be the major issue facing the ESI [Electricity Supply Industry], worldwide, in the 1990s. Since the new regulatory framework in Britain was not developed with environmental problems in mind, there is a danger that, at the international level, it will come to be treated as a mere sideshow to the main (environmental) event. If so, that would be a pity; for, as we hope we have shown, the information the experiment promises to yield will be relevant in many contexts, not least in the context of environmental regulation itself. The reforms may not be widely copied, but they do merit close scrutiny.*

John Vickers and George Yarrow, “The British Electricity Experiment”, *Economic Policy*, 1991.