

# Economics can't be encapsulated into knowledge pills. And that matters for research funding. <sup>[1]</sup>

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## AVAILABILITY

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## EXCERPTS

Antibiotics - when they work - are miraculous.

A patient does not have to understand what antibiotics are, or why antibiotics are effective. All that is required is for someone somewhere in the world to create an effective antibiotic and put it into a pill. Then it can be shipped to someone with a bacterial infection, and the patient will be cured.

Economics isn't like that. There are economic pills: Eliminate Barriers to Trade. Cut Government Spending. Target Inflation. Target NGDP. Tax Consumption Not Income. And some countries do take their economic medicine. But swallowing economics pills does not always lead to the hoped for results.

Partly that's because some economic prescriptions are simply bad medicine.

But the point I want to make here is that patient cannot use economic medicine effectively unless they understand how it works. Take, for example, carbon taxes. There is a fairly high degree of consensus among economists carbon taxes are a good idea (see here). Yet it's not possible to simply swallow a carbon tax pill. Designing and implementing a carbon tax requires specific knowledge.

Take, for example, the treatment of cement under a carbon tax. Manufacturing cement is highly energy intensive. Canada both exports and imports the product. If Canadian cement producers have to pay a carbon tax, but international producers do not, then carbon taxation would increase of the cost of producing cement domestically relative to importing it (and decrease the competitiveness of our exports). Given our free trade agreements, it is not obvious we would be able to impose a carbon tariff on imported cement to protect our domestic producers. Under a worse case scenario, Canadian carbon taxation could cause Canadian cement production to become uncompetitive, and cement consumers would switch over to imported products.

This is not to say that carbon taxation is a bad idea, or that carbon taxes are impractical. The point is: policy makers have to actually understand what they are doing to translate the insights of economic theory into good economic policy.

This matters for research funding. When pathbreaking research can readily be encapsulated into little knowledge pills, it doesn't matter where research is done, or who does it. The knowledge pills can be shipped from wherever they are manufactured to people all around the world, who just swallow them and receive the benefits of that knowledge.

[If the pill metaphor doesn't work for you, think of an iphone, and all of the incredibly sophisticated engineering and software design that goes into creating a device that a not particularly bright two-year-old can use.]

But for economic research, local knowledge matters. Yes, it's possible for an economic expert to fly into a country, feed the locals knowledge pills in the form of workshops and consultant reports. But it's hard to translate economic theory into good policy, and people have to understand not only the theory but the local constraints, because otherwise everything can go badly wrong (for an example, pick your favourite failed or flawed intervention - mine would be the 1989 post-Soviet transition in Russia).

In economics it is not enough to fund "pioneering thinkers" to create "groundbreaking insights." Those groundbreaking insights have to be understood - and I mean seriously, deeply, understood, not one-day-conference understood, but experienced-researcher understood - by local experts.

That means that if the Canadian government is funding economic research, and wants to generate any benefit at all to the average Canadian, that research has to build knowledge of Canada-specific constraints, it has to train Canadian experts, and it has to build Canadian policy capacity.

One might think this point is obvious. Trust me, it's not.

-reprinted from Worthwhile Canadian Institute

**Region:** Canada <sup>[3]</sup>

**Tags:** economics <sup>[4]</sup>  
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