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Education and Skills: Is Europe on the Right Path?

I shall talk in this presentation from the perspective of an economist engaged in teaching and recruiting young economists for careers in policy making. My perspective is global – the IMF Institute works every day on eight campuses in six time zones around the world – but it is narrow insofar as I have no wisdom about education outside the field of economics. I want to make five points in this presentation:

- There is a deep hunger for knowledge – especially practical analytics – all over the world. This can be a powerful force for good. But the boundary between information on the one hand and advocacy or spin or propaganda on the other is very thin, and crossing it can be destructive of reputation and credibility.
- The business of making government policy is very complicated, and the task of explaining the policy alternatives is even more exacting. Governmental institutions in open democracies should see clear policy exposition – that is, an educational function – as an essential part of their duties.
- Public educational institutions – high schools and universities – should teach citizens what they need to know to make informed personal choices, in the areas of economics and finance, and to be engaged in public discourse so as to make sensible political choices.
- Economics education at the university and graduate school level should represent the field as a rigorous examination of *socially-significant policy problems*. It should

be neither a stand-alone branch of applied mathematics nor an undisciplined discussion of competing political ideologies.

- Broadening international access to the great western institutions of higher education may be one of the most effective tools for ensuring the vigor and longevity of the political and social arrangements they exemplify – that is, free and open democratic politics and market economics.

Now, this being an economics conference, I should start by writing down a production function, differentiating it with respect to labor, and showing how the marginal product of labor – and thus the equilibrium wage rate – depends positively on human capital – that is, the education and skill set of the workers. I could go on then to model education as investment. But much of this analysis has already been done at this conference – and more competently than I could do it – and, besides, I want the freedom to indulge in a very broad discussion. So I shall be, unashamedly, anecdotal.

At the start of the transition to market economics in the old Warsaw pact countries of Central and Eastern Europe, I led the IMF teams on German Unification and on Czechoslovakia. This involved many struggles with unfamiliar economic terms and concepts and seemingly peculiar data catchment systems. I recall one long meeting in Prague in particular. We were struggling to put the old communist output measures into GDP format, but were getting strange results largely because of the inventory figures. Eventually in utter frustra-

tion I walked across to the blackboard in the room and wrote down some mathematical notation: Was it a first or a second derivative they were measuring? We were looking for the second derivative. There was a moment's silence and then a grunt of delight from one of our Czechoslovak interlocutors – now it all made sense. We had a language in common, a hunger for understanding had been appeased.

A few years later, I read an article by a Czech central bank official – who may well have been in the room that day. He wrote about the intense need to understand this economics of the west, of how a succession of courses at the Joint Vienna Institute (JVI) and the IMF Institute in Washington had helped fill this need, about the joy with which he had returned to Prague after these courses to share the material with his colleagues and to begin canvassing for them to be admitted to the next course.

Not long ago and not far from where we are now, I sat at a dinner with a group of young economists from Eastern Europe who had just completed a course at the JVI. Three of them, who were from a particularly repressive regime, told me that the course had been wonderful, that it had taught them things that they really needed to know. I asked slyly: “Will you be able to use this material in your country in the present circumstances?” They exchanged nervous glances, then one replied smiling, while the others nodded: “Not yet. But when he goes we will be ready.”

What I mean to say by way of these anecdotes is that the pervasive hunger for knowledge and understanding is a powerful force for good.

I am not naïve about this. There are countries with dominant entrenched lobbies that serve narrow interests and are impervious to arguments about general welfare. But in my experience it is astounding how many good people there are in public life who want to understand the issues fully and to be able to argue through all the options and explain their positions to their constituents.

There is, of course, also a deep strain of skepticism – so much of what passes for information in our political lives today is advocacy or spin, designed not to inform or explain but to persuade or manipulate. Moreover, a perceived western, or even Anglo-Saxon, intellectual hegemony in the field of economics exacerbates suspicion. These issues are evident in our work at IMF Institute affiliates in the Middle East, Africa, Latin America, and Asia. To be effective in these circumstances it is essential to allow equal time to opposite views and to examine alternative positions carefully and honestly; people cannot be bludgeoned into concurrence, they can only be allowed to draw conclusions from the arguments and the evidence. We are not trying to win short-term arguments, but to help build an enduring intellectual framework for policy analysis.

When, a while back, the Governor of the People's Bank of China asked the IMF Institute to arrange a seminar for high officials on the Chinese exchange rate regime, it was not because he thought we would agree with the official Chinese position. But he knew that we would bring together the best minds representing competing views, and that we would see our job as trying to examine the

fundamental assumptions or strands of analysis that led to different conclusions – in short, that this would be an honest examination.

For the IMF (and, by association, the JVI) the idea of a well-trained group of professional economic policymakers in the countries with which we conduct surveillance and program negotiations is crucially important. We need interlocutors who understand what we say and are capable of evaluating it critically and agreeing or disputing or suggesting alternatives. It is impossible to get national authorities to really take ownership of an economic strategy unless they have been fully engaged in its creation. Moreover, the world is becoming increasingly more complex – witness all of the recent work we have been doing in trying to understand the interaction of global finance with national macroeconomic policy – and, as a consequence, our training mission is continuously trying to catch up. The recent work of the JVI – both curriculum development and high level seminars – is testament to just how important it is to cater to the rapidly evolving needs of our client countries. So, as my colleague John Lipsky has said recently, training, educating, and providing information are, for us, a core business. As I have suggested above, I think that this is an equally important component of the business of national government agencies and central banks.

Let me turn now from the issue of educating the policymakers to the

broader issue of education. In his wonderful book *Capitalism and Freedom*¹ Milton Friedman discusses whether education should be seen as a public good – financed with public money – or as a private investment. Crudely stated, one of his conclusions is that general education – the sort of thing we get at school and in undergraduate studies – is beneficial to the citizenry at large. It improves social welfare by allowing citizens to make informed political choices; it should, therefore, be seen as social investment and subsidized by government.² (He argues, on the other hand, that investment in a specific professional or vocational skill – e.g., law or medicine – produces private returns and should be privately financed.)

Friedman's rule seems by and large sensible to me – although one could debate whether certain investments in skills like those of the medical profession do not also have some social returns. But I think what we include in this general, social-welfare-raising education is far too narrow and out of date. We need to teach students at schools and universities at least enough about economics and finance to facilitate an understanding of the issues they will face in their personal finances – given demographics in many of our countries, their decisions will soon have serious macroeconomic implications – and of the political choices they will have to make as voters.

I believe, moreover, that people want this training. One of the most

¹ *The University of Chicago Press, 1962.*

² *This, of course, does not mean that it should be supplied by a government monopoly or that providers should not be subject to competitive pressures.*

popular lectures in a course I used to teach at the Johns Hopkins University was on unintended consequences. We would analyze how a tax could be imposed on one group (capitalists for example) and the true burden would fall on another group (perhaps unskilled workers) and how this all would be determined not by the way the tax law was written but by a set of demand and supply elasticities. We would also discuss how a well-meaning egalitarian regime operating in a global market economy might, by seeking to raise the wages of workers at the bottom of the distribution and to constrain the after-tax incomes of those at the top of the distribution, worsen the circumstances of both groups. It was always a delight to me to see how this discussion could influence the way these students read the press reports on economic policy. There were no obvious policy desiderata except at the most general level, but there was a sensible framework for discussion and debate. We need to provide this to our citizens if we are to have successful democracies.

What about the education of professional economists – a natural preoccupation of mine as I am involved every day in (a) the teaching of professional economists, and (b) the recruiting of professional economists from the various universities across the world. Here again, let me offer an anecdote. About 20 years ago some

colleagues and I were having lunch with Hans Tietmeier, then a senior official at the Finance Ministry in Germany. I was teasing Tietmeier by lamenting the lack of rigor in the typical German economics graduate school curriculum. He responded in typically robust fashion: “German universities may not teach enough rigor, but American universities don’t teach any sensible political economy.” Of course, we were both exaggerating to enliven the discussion, but there was truth in his assertion.³

These days, even within the economics profession in the United States, questions are being raised about whether the rigor of our analysis – pushing the utility- and profit-maximizing paradigm to its logical conclusion by insisting on microeconomic foundations for the behavior of all agents in all models – is not leading us on a path toward elegant theoretical constructs that have less and less traction on the policy problems of a real world with seemingly capricious distortions and rigidities.⁴ In a recent article Greg Mankiw notes: “God put macroeconomists on earth not to propose and test elegant theories but to solve practical problems. The problems He gave us, moreover, were not modest in dimension.”⁵

My own view is that economics graduate schools should inculcate habits of rigorous analysis with all of the sophisticated mathematics and

³ I subsequently went off and read all the German theorists that Hans had mentioned – including Walter Eucken and, of course, the writings of Ludwig Erhard – and learned about the importance of German ideas like *Ordnungspolitik* and the *Soziale Marktwirtschaft*; I even went so far as to write about them at times. See, for example, Lipschitz and Mayer: *Accepted Economic Paradigms Guide German Policies* (1988).

⁴ See, for example, Chari and Kehoe: *Modern Macroeconomics in Practice: How Theory is Shaping Policy*, and Mankiw: *The Macroeconomist as Scientist and Engineer* (2006).

⁵ Mankiw *op. cit.*, page 29.

econometrics that that requires. But the field of economics should seek to attract students with a real interest in social and political problems – not failed mathematicians looking for another area where one can make a living by applying fancy techniques. So we need a healthy dose of political economy to lighten the analytical load and to give a distinctive policy flavor to the study of economics. Perhaps the Bologna Process will point in the right direction for higher education in Europe.

Finally, let me say something about soft power. The importance of education for winning hearts and minds has long been understood. One could find historical examples going back to Herod in Rome and before. But in modern times one thinks of the U.S. Fulbright Program, started in 1946, which encourages two-way exchanges, and Patrice Lumumba University in Moscow, founded in 1960 with the explicit objective of educating future socialist leaders in developing countries. A survey of leaders in developing countries in 1990 found that two thirds of them had studied abroad – and this figure would be even higher for central bank governors and finance ministers.⁶ Student exchanges between the U.S.A. and the U.S.S.R. started in the late 1950s. Alexander Yakovlev, one of the intellectual architects of perestroika, was one of four Soviet graduate students enrolled at Columbia University in the autumn of 1958. The competition between intellectual paradigms is a long war, not a single battle; and those paradigms that are

robust to the exacting tests of real world developments will prevail.

It is particularly at times of massive social and political transition that a common language for analysis and intellectual activity is important – witness the extraordinary influence of the 20,000 alumni of the Joint Vienna Institute. And this need for a commonly accessible intellectual framework applies as much to Africa, Asia, Latin America, and the Middle East as to the transition in Europe.

I led the IMF team to South Africa during the transition from the



old de Klerk Apartheid government to the new Mandela government. Shortly before the change there was fear in the capital markets and a very real danger of massive capital flight during the period leading up to the elections; this would have left the new government mired in economic crisis. We needed to negotiate an agreement with all political parties that would guarantee a sensible post-election economic strategy, allay the fears of investors and creditors, and thus avert a crisis. This was hard to do: some of the groups who would have to be party to the agreement were still shooting at one another in the streets, and some saw the Fund as

⁶ Spilimbergo: *Democracy and Foreign Education* (2006).


an evil representative of western imperialism. With each group the pattern was the same: we would ask about their post-election economic objectives, put some data up on the board to put these objectives into an accessible analytic framework, and then embark on an inclusive discussion about how one would go about realizing them. In most cases there was initial mistrust – Was this truth or spin? Were we being honest and helpful, or deceitful? – followed by genuine interest, and, finally, full engagement. The most radical group arrived with bodyguards and guns and an attitude of great hostility. But they also had a senior economic advisor who had studied in Germany with one of my colleagues and without whom a breakthrough would have been near impossible. (In the end, I might add, all parties signed on to the agreement and honored its terms. A potential crisis was averted.)

When wise ambassadors for the United States and Europe go abroad – sometimes to countries less enthused about institutions like democracy and markets – they are not trying to spread a culture of McDonald's and rap music, or even of haute cuisine and Mozart. Rather, they are trying to explain the epistemological imperatives of their culture: intellectual traditions that encourage exploration and critical questioning. They are, at the same time, encouraging others to examine western culture – high and low – to laugh at the silliest aspects of it, to try to understand and appreciate other parts, to pick and choose, to accept and reject.

⁷ *ibid.*

My colleague, Antonio Spilimbergo, has recently completed a fascinating empirical study using a unique set of panel data.⁷ He shows that foreign-educated individuals educated in democratic countries serve to promote democracy in their own countries. This result is robust to various specifications and tests. But a foreign education in a non-democratic country has no democratic influence in the home country. Perhaps it is the way open societies go about the business of learning – rather than the content of that learning – that explains this discrepancy. But, whatever the precise mechanism, I believe that providing greater foreign access to the great European and American institutions of higher learning is a policy that will pay significant global dividends.

In conclusion then:

In open societies we need politicians and officials capable of informed discussion on economic policy options. We need an economically-literate electorate capable of following these discussions and of making sensible choices. We need academic and governmental institutions that take seriously the roles of educating citizens on public policy issues and elucidating the policy choices under discussion. We need a professional class of economists – in academe and elsewhere – that is both analytically rigorous and engaged in real issues of political economy. And we need to open our universities to those from other societies where, perhaps, the imperative of critical discussion and debate is less woven into the intellectual fabric. 

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