

# EBPM: Its Potential & Limitations

By Masakazu Toyoda

Evidence-Based Policy Making (EBPM) is a method of developing policy while confirming the policy's effectiveness. While no one disagrees, it is not as simple as it may seem.

In Japan, a review of GDP and economic statistics in the fall of 2016 triggered a politically-driven study. In February 2017, the Council for the Promotion of Statistical Reform, chaired by the chief Cabinet secretary and consisting of relevant ministers and experts, was established, and in May a "Final Report" was released. In June 2017, the Cabinet approved the "Basic Policy for 2018", which integrally promotes EBPM and "statistical reforms" as two wheels of a cart. In August, the EBPM Promotion Committee, consisting of EBPM supervisors from each ministry, was established and each ministry appointed a new high-level official responsible for a variety of EBPM initiatives. Since then various initiatives have been under way.

The pioneer of EBPM is the United States, where during the 1960s the administration of President Lyndon B. Johnson launched a "War on Poverty" and worked on a number of projects. Specifically, the Department of Education, the Department of Labor, the Department of Health and Human Services, and other agencies adopted randomized controlled trials (RCTs), which had been developed in the field of clinical medicine, to evaluate the results of poverty policies. Subsequently, in the field of social policy, various accumulations were made, and in the mid-1990s the golden age was reached. However, in 1996, with the passage of the Social Security Reform Act, state governments were given greater discretion and budgets, and ironically there was no longer a need to evaluate the results of RCTs, which limited their number.

Later, RCTs were emphasized again in the areas of education and development economics, and in 1993, under the administration of President Bill Clinton, the Government Performance Results Act was passed, making RCTs a federal government policy. It mandated the setting of target indicators and the evaluation of their achievement, and the results of the evaluation were to be reported to Congress and reflected in the budget. However, there were limitations to the evaluation methodology, Congressional interest was low, and there seemed to be no small difference in the degree of utilization by different departments.

After a while, during the administration of President Barack Obama (2009-2017), RCTs were used in health, homelessness, unemployment, and crime, and the use of RCTs was expanded by making existing evidence available online, establishing interagency EBPM working groups, soliciting initiatives to build

new evidence, and providing incentives through a separate budget of up to \$100 million. This resulted in a number of innovative EBPM approaches. In particular, the Tiered Grant, which allocates grants according to the robustness of the evidence supporting policy effects, is said to have fostered an organizational culture that emphasizes evidence, not only in the government but also in Congress. Thus, although EBPM has been nurtured for a little over 50 years since the Johnson administration, it is said to be utilized for only a small part of the federal government's overall operations.

What are some of the things that are limiting it?

The first is the lack of quality data needed to generate evidence. In many cases, even when data is available to the government, it is not available to researchers.

The second is the relationship with privacy protection. The European Union and Japan are particularly strict on this point.

Third, correlation does not necessarily imply causation. Masayuki Morikawa, deputy director of RIETI and professor at Hitotsubashi University, commented on industrial policy: "There are many types of policies that select target industries and companies according to policy objectives, such as supporting companies with high growth potential or, conversely, boosting relatively weak companies. In this case, it is not appropriate to interpret the correlation between high and low performance (growth rate, profitability, productivity, etc.) of the targeted firms as a causal relationship between the effectiveness and ineffectiveness of the policy, since such a relationship has a selection bias."

Fourth, in the case of Japan, there are not many experts in statistics. This is due to the fact that the positions in Japanese ministries and agencies often change after a few years, which makes it difficult to nurture statistical experts. It is necessary to foster statistical experts while fully recognizing the importance of statistics, as in the US and Europe.

EBPM has great potential in terms of selecting correct and effective policies. On the other hand, however, it also has various limitations. Without efforts to overcome those limitations, while fully noting them, it will be difficult for EBPM to bear large fruits. Today, when digitalization is accelerating due in part to the Covid-19 disaster, we should consider this an opportune time to create an environment in which EBPM can flourish.

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Masakazu Toyoda is chairman and CEO of the Japan Economic Foundation (JEF). He previously served as chairman and CEO of the Institute of Energy Economics, Japan, after having been vice minister for International Affairs at the Ministry of Economy, Trade and Industry.