

ICI VIEWPOINTS

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2017 Investment Company Fact Book: Letter from the Chief Economist

By Brian Reid

A version of this letter by ICI Chief Economist Brian Reid was released in our 57th edition of the Investment Company Fact Book.

Have you ever tried to put a jigsaw puzzle together without knowing what the finished work should look like? It's difficult—even with help from family and friends. Are those blue pieces part of a peaceful lake or a cloudless sky? Are those dark pieces a forest floor or storm clouds brewing on the horizon? Without the completed picture on the puzzle box as a guide, everyone has their own idea of what the completed work will look like and how to put it together.

The development of public policy is often compared to making sausage. But to me, it's more like assembling a jigsaw puzzle without the benefit of the box. Legislators and regulators typically are tasked with coordinating a policy action, but they often have very limited information available to them. They do not know how the pieces will fit together, and they all have their own ideas of what the policy should look like. But unlike a jigsaw puzzle, a flawed law or regulation can't easily be disassembled and put back in the box.

Economists and researchers are frequently called upon to bring greater clarity to this uncertain process. But the picture they see—complete with unintended consequences and unexpected costs—doesn't always match the vision that policy advocates are pursuing. Sometimes that leaves researchers in a position of having to explain that their analysis does not support a particular policy action, or that changes need to be made to reduce the chances of negative effects.

The process can be frustrating for the policy's proponents. This is particularly the case when the potential benefits of a rule are more tangible or measurable than its costs. Despite this, economists have a responsibility to help policymakers know not only what the final policy should look like, but also the effect it will have.

Over the past 12 years, in my introduction to this book, I have addressed the role of ICI Research. Our mission is to help "facilitate sound, well-informed public policies affecting investment companies, their investors, and retirement markets." It directs us to undertake research to guide fact-based, defensible policy proposals, rather than using data and analysis to defend a predetermined position.

What is the difference? Guiding policy with research means that data and analysis are used at the outset to help determine what a policy position should be. We best serve the interests of funds and their investors when we direct our resources to understanding the potential benefits, as well as the risks, of policies under consideration. The alternative—using research to defend a predetermined policy position—amounts to no more than forcing together mismatched pieces of a puzzle. Doing so can create a distorted picture of that policy, exposing our members and their shareholders to unintended consequences.

In the past few years, ICI researchers have raised public concerns about the economic analysis behind various government proposals in the retirement and financial markets. Challenging a proposed rule that has significant political muscle behind it requires considerable fortitude and perseverance. My colleagues and I serve our members by bringing comprehensive, informed analysis to a particular issue; we have the same obligation in the public forum.

The mission to bring fact-based analysis to the formulation of public policy guides our work at ICI Research. Like everyone else participating in the process, we do not know with certainty how all of the pieces of the public policy will fit together, or whether the positive impact will outweigh any negative effects. But bringing our evidence-based analysis to the discussion increases the chances that the policy will—on balance—benefit the economy and society as a whole.

This same mission also drives our annual update of the *Investment Company Fact Book*. Dozens of staff members across ICI spend months putting together the pieces of this volume. As with anything of value, it requires hard work and dedication—but we know, based on the feedback we receive, that the collective effort is worth it. We are confident that this volume, like the 56 volumes preceding it, will positively contribute to the private and public discussions that lead to good policies and decisions for funds and their investors.

Brian Reid was Chief Economist of the Investment Company Institute.

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