Business Economics in a Post-Truth Era[1]

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Business economists face several clear challenges at this political and policy-making juncture.

"Experts" and economists are out of favor with the public and with certain policymakers. As British Member of Parliament Michael Gove famously asserted during the Brexit campaign, people "have had enough of experts." And so even average "nonexpert" average citizens seem to increasingly have opinions without knowing the facts.

Here's an example.

A Public Policy Polling poll in 2015 asked primary voters whether they would support bombing Agrabah. Forty-one percent of Trump supporters said yes. Thirteen percent of Clinton voters also supported military action, while 37 percent opposed it.

Agrabah does not exist. It is the fictional country in the 1992 Disney film *Aladdin*.

This appears to be is a variant of the Dunning-Kruger effect—that is, when less informed people don't know what they don't know and think they know more than they do. So, today, academics are writing of the "death of expertise."

Expertise may not be dead. That is too strong. But experts—including economists—do face distain and distrust. A rejection of expertise, however, does not mean having to refuse to take a position or state a belief.

How should we, as business economists, react?

Be Frank About Our Failures

We need to recognize our limits and be frank about our failures, because recognizing our limits is key to our influence, now and in the future.

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[1] NABE Presidential Address, delivered on September 24, 2017.

In a post-truth era we must, first of all, look to our professional standards and defend our norms and culture.

NABE professional guidelines provide direction:

> "It is important to us that we exercise balance, transparency, and honesty in our professional relationships in a way that does not exceed the reasonable boundaries of what our profession can offer on subject matters."

I recall when Chris Varvares, Co-Founder of Macroeconomic Advisors, was formulating our professional guidelines with colleagues on the board. There was debate about whether we really needed them. Surely such norms were already well understood? Would such norms be almost anodyne in their nature and degree of obviousness?

It turns out you can answer yes to those questions but still ensure the standards are embedded within our culture and our profession of business economics.

We need to be willing to recognize our failures.

Nasib Teleb goes too far in his excoriation of economics and economists in his book, *The Black Swan: The Impact of the Highly Improbable*. But we have plenty to be frank and sometimes embarrassed about. Take, for example, the failure of almost everyone, except perhaps Raghurah Rajan, University of Chicago Professor of Finance, and Bill White, former Head of Research at the Bank for International Settlements, to see the global financial crisis risks in advance. And, more recently, the loud warnings of disaster due to Brexit by many, including Mark Carney, Governor of the Bank of England, which proved to be, at least in the short term, wrong. Or warnings by NABE about the possible effects of the new administration on the economy. We forecast a Trump slump, and did not see the Trump bump coming.

So we, as economists, need to be cautious about the reach of our analysis and the limits of our judgment.

Recognize the Limits of Our Models

We also need to be realistic about the limits of our models. We must be clear that our models are essential, but caution is necessary. As John Silvia, Chief Economist of Wells Fargo, put it in his 2016 book, *Economic Modeling in the Post Great Recession Era: Incomplete Data, Imperfect Markets*:

> "Economic outcomes rarely come about as seamlessly as predicted by theories and models … we should be more critical of models that assume away the essential problems to achieve precise results in an imprecise world."

Joseph Stiglitz, former Chief Economist of the World Bank and Nobel Prize recipient, has taken aim repeatedly at the weaknesses of standard economic models, most recently at the NABE spring 2017 conference.

Kevin Warsh, former Governor of the Federal Reserve System, has taken monetary policy models to task in past NABE meetings.

Austan Goolsbee, former Chairman of the Council of Economic Advisers during the Obama administration and current Professor of Economics at the University of Chicago, warned of our models' limits at the NABE lunch on September 23, 2017.

And for models, context is crucial.

As a canoeist, I know a flat-water canoe will not work in white water. The canoe looks okay to the untrained eye, but the design of a flat-water canoe is different from the design of a white-water canoe, and you will capsize. So the water conditions matter to the model of canoe I choose to use.

Or, as Robert Solow, the 2010 Nobel Prize winner observed:

> "The proper choice of model depends on the context."

We need to be realistic about our profession's weaknesses, and aware of our models' limits. Recognizing our boundaries and the limits of our models, we can defend our profession from a major potential threat to the profession.

Defend Truth Against Falsehood

Business economists must resist the suggestion that we are in what the *Oxford English Dictionary* in 2016 called a "post-truth" era. Or to put it another way—are there "alternative facts"?

Let me be clear: No there are not.

As New York senator Daniel Patrick Monahan said decades ago:

> "Everyone, is entitled to his own opinion, but not to his own facts."

It is unfortunate such a simple observation needs to be reiterated, and defended. But it does.

NABE's Professional Guidelines can again help us anchor our defense of our discipline. On Practices and Methods, NABE states:

> "We uphold the principle of using data which are known to be good measures of the subject matter and which are represented as accurately and fairly as possible. We strive to use the best practices and methods when using data to describe and analyze subject matters on behalf of our clients and peers."

On Communications, NABE's guidelines are clear:

> "We intend to ensure that all communications—written and verbal—accurately represent the data and sound practices which are part of the field of business economics."

What these brief but important guidelines underscore is that data, and the proper use of that data, are the foundation upon which our profession stands, without which we cannot do our jobs and advise our clients, business leaders, and policymakers.

Data Matters, as do the Data Agencies and their Mission

In our defense of fact-based decision making, we must first assert that data matters, and the unbiased integrity of that data matters. The properly supported professional work of the statistical agencies and the staff of the Bureau of Economic Analysis, the Bureau of Labor Statistics, and the Census Bureau matters to us all.

NABE needs to be ready to defend the statistical agencies, their core missions, and their data gathering. What they do underpins all of our work and the effectiveness of our discipline.

In George Orwell's *1984*, Winston Smith states that:

> "Freedom is the freedom to say that two plus two make four. If that is granted, all else follows."

We as business economists must often tell leaders what they would rather not hear or see laid out before them, and we can only do that with unbiased data, carefully gathered by professional agencies that are properly funded.

We constantly do this—provide advice, based on sound data sources, producing analysis that is sensitive or difficult to stomach. Our effectiveness as business economists requires as much.

All our work is profoundly anchored by empirical data sets. Those data sets allow us and our profession to provide insights to policymakers, business leaders, and investors.

I think of the incredible work of Raj Chetty, Professor of Economics at Stanford University and Co-Director of the Public Economics group at the National Bureau of Economic Research, on income mobility and education. Or the remarkable and disturbing findings of Angus Deaton, Nobel Prize recipient and Professor of Economics and International Affairs at Princeton University, on inequality and health. And the superb work of Amir Sufi, Professor of Economics and Public Policy at the University of Chicago, on housing price declines and financial crises. This list goes on and on.

To be sure, facts can be awkward and upsetting, but that's life. It reminds me of Ray Bradbury's *Fahrenheit 451*. Captain Beatty explains why dangerous books must be burned:

> "[Fire's] real beauty is that it destroys responsibility and consequences. A problem gets too burdensome, then into the furnace with it."

We as business economists must be ready oppose the conflagration of truth, of our profession's and our country's data, and data-driven decision making.

And today, if a bonfire of data sources sparks to light, it will likely not be a single blaze, but a series of small fires. Agency budgets will shrink, surveys will be cut, staff will be let go.

I see the Census Bureau's preparations for the 2020 Census are threatened by a budget proposal that is hundreds of millions of dollars short of what is needed. Such cuts would jeopardize its effectiveness, and our ability to count all the people of the United States.

That must be resisted strongly by us all.

So far, Maurine Haver, Founder of Haver Analytics; NABE; and the community of data-using reality-based professionals have defended the Bureau of Economic Analysis (BEA) and the Bureau of Labor Statistics (BLS) from severe cuts in their already very tight budgets. But for the BLS and BEA, we all know flat budgets are really cuts.

And these are not agencies with fat to trim or waste to cut. They have already been subject to budget freezes and cuts in prior years. This has hampered innovation as agencies seek to preserve what they are already doing from cuts.

Looking ahead, I fear that ever shrinking budgets mean surveys may have to go. Possible surveys that lack legal mandate and are easiest to cut could include:

- The Job Opening and Labor Turnover Survey.
- The American Time Use Survey, which provides an important snapshot of how Americans use their time and where they work—in the office or at home. It also provides other insights into what Americans do when they are not working.

- The National Longitudinal Surveys (NLS)-BLS Surveys that gather information at multiple points in time on the labor market activities and other significant life events of several groups of men and women. For more than four decades, NLS data have served as an important tool for economists, sociologists, and other researchers.
- The Employee Benefits Survey (US$14.6 million in the FY2015 budget), an important source for employees and employers.
- The Census of Fatal Occupational Injuries (US$1.8 million in the FY2015 budget).

Looking at these surveys, I was constantly struck by how useful and illuminating the data were.

These are just a few examples of what I see as our "data inheritance" that is under threat as cuts hit home. And data are to business economics what flowing rivers are to canoeists. Without it we are stuck on an analytical sandbar, unable to advise business or policymakers, because we lack the data to do so.

Business Economists as Storytellers

Faced with this danger to the data and the agencies, business economists must act as storytellers—as the transmission mechanisms for historical memory.

Facts are essential. But history matters too. A character in British playwright Alan Bennett's play *The History Boys* states that:

> "History is just one fucking thing after another."

That is wrong. Historical memory—narratives—are key to good business economics and decision making—especially because forgetting is easy but remembering is hard.

Our role as business economists facing a post-truth era should be as a repository of collective memories and stories—and I mean "stories" in a nonpejorative way.

Ten years on from the global financial crisis we are and must be storytellers. The best of us already are. As Robert Shiller said in his American Economic Association Presidential Address last year:

> "Narratives are major vectors of rapid change in culture, in zeitgeist, and ultimately in economic behavior."

We are a primary source of historical memory, of narratives, of past experience told as stories. Without those examples, as the next building credit- and debt-fueled crisis looms, as surely it will, we will be told by the protagonists that "This time is different."

But it never is, as so clearly demonstrated by Ken Rogoff, Professor of Public Policy and Professor of Economics at Harvard University, and Carmen Reinhart, Professor of the International Financial System at Harvard's Kennedy School of Government.

Of course, narratives are in debate and in dispute. There are often multiple competing narrative explanations for crises. We cannot be uncritical of narratives. But they are essential to our trade.

I remember John Silvia, Managing Director and Chief Economist for Wells Fargo, observing to me that most of his traders are too young to remember the global financial crisis—they were children then. They cannot remember that which they did not experience.

Business Economists Transmitting Historical Lessons

NABE and business economists need to be transmission mechanisms for the profession, for young economists coming into the field. We have those experiences and those stories. We have the scars. We can pass on the narratives. And they need it. Because the next generation is not getting its economic history from university.

In preparation for these remarks, I reviewed the economic syllabuses in the top ten economics departments in the United States. None of those courses required undergraduate students to take an economic history course as part of their studies. Even in master's courses, studying economic history is not generally required.

Now, it seems to me that producing economics graduates who can leave university without having studied the rhythms of economic history, and the drivers of financial crises, is a huge mistake. As Stephen King, senior advisor to HSBC, who we heard from on September 23, 2017, has observed:

> "Too few economists newly arriving in the financial world have any real knowledge of events. … The Global Financial Crisis can be more easily interpreted and understood by someone who has knowledge about the 1929 Crash, and the Great Depression."

Andy Haldane, Chief Economist and Executive Director of Monetary Analysis and Statistics at the Bank of England, takes a similar view:

> "Financial history should have caused us to take credit cycles seriously…"

Haldane rightly laments the loss of economic and financial history from the core curriculum, stressing it contributes to neglect of such key drivers of crises.

Now of course, we, as business economists, cannot solve the failings of economic education. That is not our job. But we can press new hires—and I do—to read Kindleberger, Aliber, Galbraith, Minsky, and many others.

And we, as NABE members, can act as the collective repository of historical memory. In doing so we can pass on to the next generation narratives and experiences that will make them better business economists and better advisors to leaders and policymakers.

Warnings from Recent History

Recent history can provide us with particular examples that make clear why we must resist a post-truth landscape, and defend our profession and our data sources. The case of Andreas Georgiou is one shocking example.

Some of you heard him speak eloquently at the spring 2017 NABE Economic Policy Conference. As Director of the Greek Statistical Agency, as the Greek debt crisis unfolded, he reported the correct Greek deficit data to the European Union and International Monetary Fund. Andreas's work was essential to the bailout that saved Greece from total economic collapse.

For doing his professional duty, Andreas has been legally hounded and persecuted by political forces in Greece, who are unwilling to own up to their own failures as leaders. Just weeks ago, a court in Greece found him guilty of a criminal offense for reporting the deficit facts directly to Eurostat. This is just the latest trial of Andreas in a Kafkaesque series of politically motivated cases targeting a good, honest man. He has been hounded relentlessly for doing his duty.

He is a hero for what he has done, and at considerable personal risk and cost.

A Historical Lesson from Close to Home

We in America should remember that attacks on data scientists and economists are not exclusively a foreign phenomenon. We have seen them here, too. President Nixon's attack on the Bureau of Labor Statistics in 1971 is a chilling example.

It all started because the Bureau had downplayed a drop in unemployment, ascribing it—correctly—to a statistical quirk. Nixon was infuriated. The Nixon tapes recorded his anger turned against a particular BLS economist. Nixon railed:

> "He's got to be fired… I gave the order… it was clear. didn't I?"

Nixon thought there must be a conspiracy. A Jewish conspiracy. Nixon tasked his chief of staff Bob Haldeman and special assistant Fred Malek to identify the offending Jews in the Bureau of Labor

Statistics, whom he accused of being a cabal of "ethnics" deliberately producing gloomy economic news.

Professional BLS staff came under attack. Nixon targeted the Deputy Commissioner, Assistant Commissioner, the chief statistician, and the chief economist. Many others were also targeted because of their perceived Jewishness or political affiliations. Reorganization was the professed reason they would be fired or reassigned.

What a terrible episode.

I worry that one day, perhaps soon, upsetting, but real, negative economic data could result in a similar backlash from some policymakers or leaders with power over the agencies.

Gene Sperling has recalled how he had to report to President Obama one month in 2011 that there was zero job creation in the United States. And the president took it on the chin, even though his opponents started calling him "President Zero."

How confident can we be that this will happen when the next downturn begins and numbers are not pleasant? We have already seen repeated ill-informed and bogus claims that the Bureau of Labor Statistics' unemployment data are questionable. And we have seen attacks on the Congressional Budget Office, its staff, and its mission, for estimating the impact of proposed legislation, as it is required to do.

So, at this juncture, facing the threat of a post-truth era, business economists must be frank about our own failures, be modest about our models' capacities, and defend our profession's standards.

Defend the data agencies, their budgets, staff, and the data they produce that underpin our work and the fact-based decision-making processes we support.

And we must remember and transmit historical examples that alert us to the dangers and risks ahead.

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