Economics is Hard. Don't Let Bloggers Tell You Otherwise

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Abstract

In this essay, I argue that neither non-economist bloggers, nor economists who portray economics -especially macroeconomic policy- as a simple enterprise with clear conclusions, are likely to contibute any insight to discussion of economics and, as a result, should be ignored by an open-minded lay public.

The following is a letter to open-minded consumers of the economics blogosphere. In the wake of the recent financial crisis, bloggers seem unable to resist commentating routinely about economic events. It may always have been thus, but in recent times, the manifold dimensions of the financial crisis and associated recession have given fillip to something bigger than a cottage industry. Examples include Matt Yglesias, John Stossel, Robert Samuelson, and Robert Reich. In what follows I will argue that it is exceedingly unlikely that these authors have anything interesting to say about economic policy. This sounds mean-spirited, but it's not meant to be, and I'll explain why.

Before I continue, here's who I am: The relevant fact is that I work as a rank-and-file PhD economist operating within a central banking system. I have contributed no earth-shaking ideas to Economics and work fundamentally as a worker bee chipping away with known tools at portions of larger problems. It is precisely from this low-level vantage point that I am totally puzzled by the willingness of many who fearlessly and breathlessly opine about economics, especially macro-economic policy. Deficits, short-term interest rate targets, sovereign debt are all chewed over with a level of self-assuredness that only someone who doesn't know more could. The list of those exhibiting this zest also includes, in addition to those mentioned above, some who might know better. They are the patron saints of the "Macroeconomic Policy is Easy: Only Idiots Don't Think So" movement: Paul Krugman and Brad Delong. Either of these men will assure their readers that it's all really very simple (and may even be found in Keynes' writings). Lastly, before you dismiss me as a right- or left-winger, I am not. I'm simply less comfortable with ex cathedra pronouncements and speculations than the people I have named.[1]

The main problem is that economics, and certainly macroeconomics is not, by any reasonable measure, simple. Macroeconomics is most narrowly concerned with the tracing of individual actions into aggregate outcomes, and most fatally attractive to bloggers: vice versa. What makes macroeconomics very complicated is that economic actors... act. Firms think about how to make profits, households think about how to budget their resources. And both sets of actors forecast. They must. One has to take a view on one's future income, health, and familial obligations to think about what to set aside for retirement, how much life insurance to buy, and so on. Of course, all parties may be terrible at forecasting, that's certainly a possibility, but that's not the issue. Even if one wanted to think of all economic actors as foolish and purposeless organisms making utterly random choices, one must accept that their decisions will still affect, and be affected by what others do. The finitude of resources ensures this "accounting" reality.

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*The views expressed are my own, and do not necessarily represent those of the Federal Reserve Bank of Richmond, or Federal Reserve System.

[1] Somewhat strangely, in an earlier era Paul Krugman very effectively took the same sort of "accidental theorist" to task, so what I'm saying is really a bit of a rehash of his arguments.

Beyond this, some may recall that Economics 101 is usually insistent on reminding students of the Fallacy of Composition: what is true for some may not be true for all. Much of macroeconomics is dedicated precisely making sure that when we talk about the "economy", we don't fall afoul of this fallacy. It is therefore not surprising that the majority of the training of new PhDs in their macroeconomic coursework is giving them a way to come to grips with the feedback effects that are likely present. Some of this is nothing more than (valuable) exercises in book-keeping. So much of my 1st year homework involved writing down tedious *definitions* of internally consistent outcomes. Not analyzing them, just defining them, and so trying to convincing my instructors that I wasn't inadvertently describing something nonsensical, where resources were being allowed to "fly in (or out) through a window." In discussions of fiscal policy, such as those regarding deficits, for example, the discipline imposed by an insistence on doing the accounting correctly helps focus economists on the real issue (total spending, and the expected future path of spending) , and also learn what *might* be peripheral (the deficit at any given moment).

The punchline to all this is that when a professional research economist thinks or talks about social insurance, unemployment, taxes, budget deficits, or sovereign debt, among other things, they almost always have a very precisely articulated model that has been vetted repeatedly for internal coherence. Critically, it is one whose constituent assumptions and parts are visible to all present, and can be fought over. And what I certainly know is that to even begin to talk about the effects of unemployment, debt, deficits, or taxes, one has to think very hard about many, many things. Examples of this approach done right in the context of some of the topics mentioned above are recent papers by Robert Lucas of the University of Chicago, Jonathan Heathcote of the Minneapolis Fed, or Dirk Kreuger and his co-authors. Comparing, even momentarily, such careful work with its explicit, careful reasoning, its ever-mindful approach to the accounting for feedback effects, and its transparent reproducibility, with the sophomoric musings of auto-didact or non-didact bloggers or writers is instructive. For those who want to really know what the best that economics has to offer is, you must look here. And this will be hard.

But why should it be otherwise? Why should anyone accept uncritically that Economics, or any field of human endeavor, for that matter, should be easy either to process or contribute to? To some extent, people don't. Would anyone tolerate the equivalent level of public discussion on cancer research? Most of us readily accept the proposition that Oncology requires training, and rarely give time over to non-medical-professionals' musings. Do we expect advances in cell-biology to be immediately accessible to anyone with even a college degree? Science journalists routinely cite specific studies that have appeared in specific journals. They generally do not engage in passing their own untrained speculations off as insights. But economic blogging and much journalism largely does not operate this way. Naifs write books, and sell many of them too. People as varied as Matt Ridley and William Greider make book-length statements about economics. I've never done that, and this is my *job*. This is, to say the very least, bizarre. The response of the untrained to the crisis has been even more startling. Many books have already been written about the nature of financial markets by non-economist writers, and I listen to Elizabeth Warren on the radio fearlessly speculating about the nature of credit market dysfunction, and so on.

I find the comparison between the response of writers to the financial crisis and the silence that followed two cataclysmic events in another sphere of human life telling. These are, of course, the Tsunami in East Asia, and the recent earthquake in Haiti. These two events collectively took the lives of approximately half a million people, and disrupted many more. Each of these events alone, and certainly when combined, had larger consequences for human well-being than a crisis whose most palpable effect has been to lower employment to a rate that, at worst, still employs fully 85% of the total workforce of most developed nations. However, neither of these events was met by (i) a widespread condemnation of seismology, the organized scientific endeavor most closely "responsible" for our understanding of these events or (ii) a flurry of auto-didacts rushing to offer their own diagnosis for what had happened, and advice for how to avoid the next big one. Everyone understands that seismology is probably hard enough that one probably has little useful to say without first getting a PhD in it. The key is that macroeconomics, which involves aggregating the actions of millions to generate outcomes, where the constituents pieces are human beings, is probably every bit as hard. This is a message that would-be commentators just have to learn to accept. For my part, seventeen years after my first PhD coursework, I still feel ill at ease with my grasp of many issues, and I am fairly confident that this is not just a question of limited intellect.

So far, I've claimed something a bit obnoxious-sounding: that writers who have not taken a year of PhD coursework in a decent economics department (and passed their PhD qualifying exams), cannot meaningfully advance the discussion on economic policy. Taken literally, I am almost certainly wrong. Some of them have great ideas, for sure. But this is irrelevant. The real issue is that there is extremely low likelihood that the speculations of the untrained, on a topic almost pathologically riddled by dynamic considerations and feedback effects, will offer anything new. Moreover, there is a substantial likelihood that it will instead offer something incoherent or misleading. Note also that intelligence is not the issue. Many of those I am telling you not to listen to will more than successfully be able to match wits, in any generalized sense, with me. This is irrelevant. The question is: can they provide you, the reader, with an internally consistent analysis of a dynamic system subject to random shocks populated by thoughtful actors whose collective actions must be rendered feasible? For many questions, I and my colleagues can, and for those that the profession cannot, the blogging crowd probably can't either.

You might say, "you're telling us to leave everything to the experts, so why should I believe you are adequately policed?" This is a fair question, but as someone who has worked for a decade to publish in leading academic journals (with some, but hardly overwhelming, success), I now have the referee reports to prove that I live in a world where people are not falling over themselves to believe my assertions. The reports are often scathing, but usually very insightful, and have over the years pointed out all manner of incoherence in my work. The leading journals have rejection rates in the neighborhood of 80%, and I've had my share of them.

In summary, what I'd like to convince the public that economics is far, far, more complicated than most commentators seem to recognize. Because if they did, they could not honestly write the way they now do. Everything "depends", and this is just the way it is. And learning what "it" depends on, exactly, takes enormous effort. Moreover, just below the surface of all the chatter that appears in blogs and op-ed pages, there is a vibrant, highly competitive, and transparent scientific enterprise hard at work. At this point, the public remains largely unaware of this work. In part, it is because few of the economists engaged in serious science spend any of their time connecting to the outer world (Greg Mankiw and Steve Williamson are two counterexamples that essentially prove the rule), leaving that to a group almost defined by its willingness to make exaggerated claims about economics and overrepresent its ability to determine clear answers.

How can this be changed? A precondition for the market delivering this is a recognition by the general public that they are simply being *had* by the bulk of the economic blogging crowd. I hope to have alerted you to the giant disconnect that exists between the nuanced discussion that occurs between research economists and the noise (some of it from economists!) that one sees in the web or the op-ed pages of even the very best newspapers of the US. As a result, my hope is that the broader public will ask for a slightly higher bar when it comes to economics, rather than self-selecting into blogs that merely confirm half-baked views that might have been acquired from elsewhere. And I hope that non-economists who write about economics start routinely to do so in a way that references and discusses the *premises* that lead to particular conclusions about a given issue. Economics is full of this sort of "if-then" knowledge, which, if communicated well, could significantly sharpen the public discussion. This is not asking a lot, it is asking just enough.