

Economists and Charlatans: *Why be numerate?*

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The Problem of Experts

- “People in this country have had enough of experts” says Michael Gove
- Is it better to consult charlatans, then?
- More to the point: how to tell the difference?
- Easy to figure out that Sean Penn doesn’t know much about the economy of Venezuela.
- How can you tell they are charlatans when they have Nobel Prizes?



It Isn't Easy

Over my career I have been presented with the economic equivalent of perpetual motion machines more times than I can tell you

- Nobel prize winning physicists
- award winning mathematic professors
- my own grandfather

Specialists learn from past mistakes – non-specialists are often unaware of these mistakes

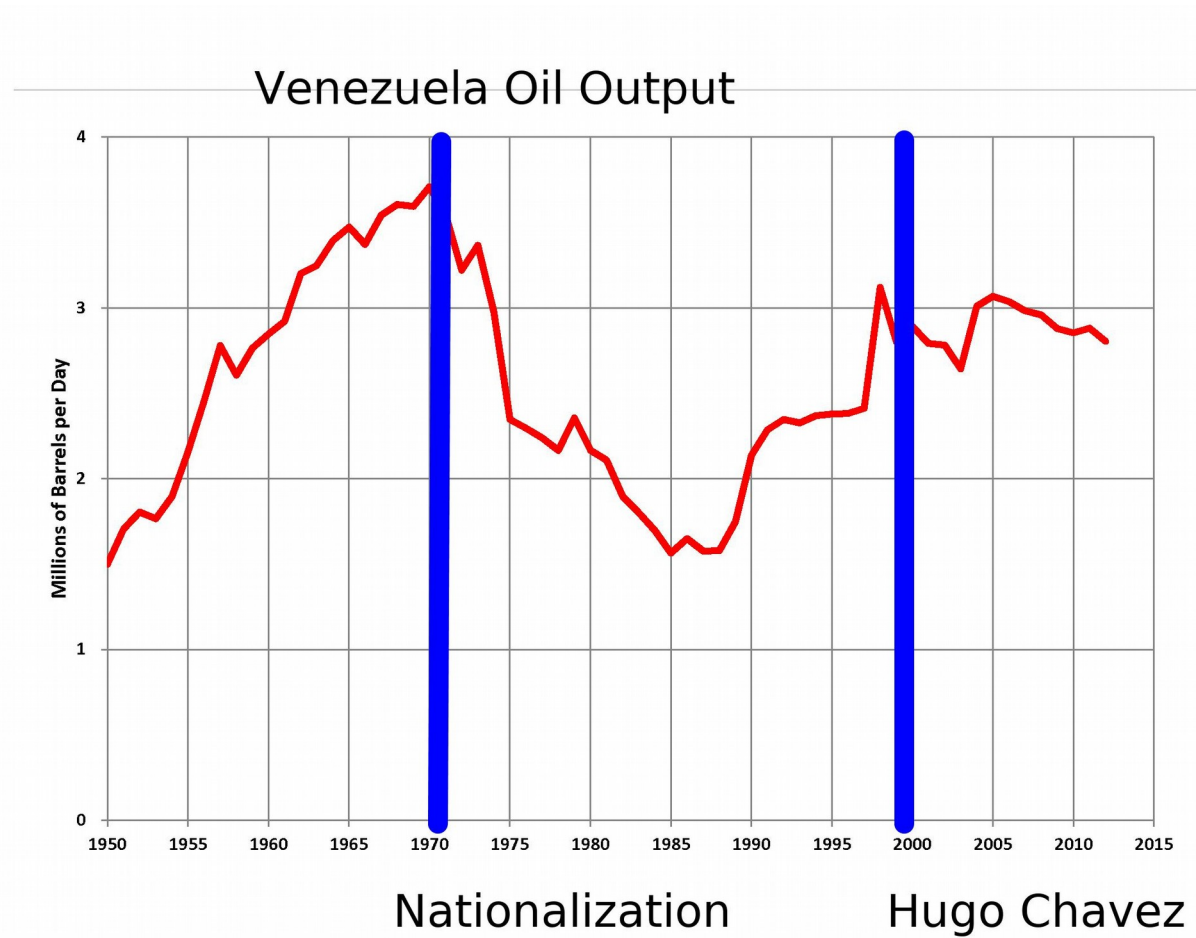
still: some common sense, numeracy and basic training in economics go a long way

When managers overruled the engineers



Daughter of the engineer Bob Ebeling on driving with her father before the launch: "He said, 'The Challenger's going to blow up. Everyone's going to die,' " Serna recalls. "And he was beating his fist on the dashboard. He was frantic."

When politicians overruled the economists



What is this Class? “The Skeptical Economist”

- We are not going to train you to be economic experts
- You will need to depend on and perhaps employ economic experts
- We are going to train you to recognize who are the economic experts and who are the charlatans
- To figure this out you must be numerate and have a basic understanding of economics
- Every physicist knows that perpetual motion machines don't work, but you don't need to be a physicist to know this or to recognize when someone is selling you a bill of goods
- Our goal is to give the basic economic knowledge you need to know when someone is selling you a bill of goods
- Specifically when your employer comes in waving the latest Paul Krugman column in the *New York Times*, we expect you to be able to explain clearly and persuasively why it is utter nonsense

When experts are charlatans...



Advisors: Mishkin

Mishkin (Columbia)

- his book: *The economics of money, banking, and financial markets* has nearly 5000 citations
- in 2006 paid \$124,000 by the Icelandic Chamber of Commerce to co-author a report on the Icelandic financial system
- the report said that the Icelandic banks were sound
- in 2008 dramatically proven wrong when the banking system in Iceland collapsed.

Incentives Matter

- economists are motivated by the same things as everyone else:
 - greed, money, social approval, sex, altruism, ideology
- who is paying?
- political views?
- looking to be exciting and controversial?
- looking for entrée into particular social circles?

Does a Nobel Prize make you an expert?



Nobel Prize Winners: Stiglitz

Stiglitz (Columbia) 2015

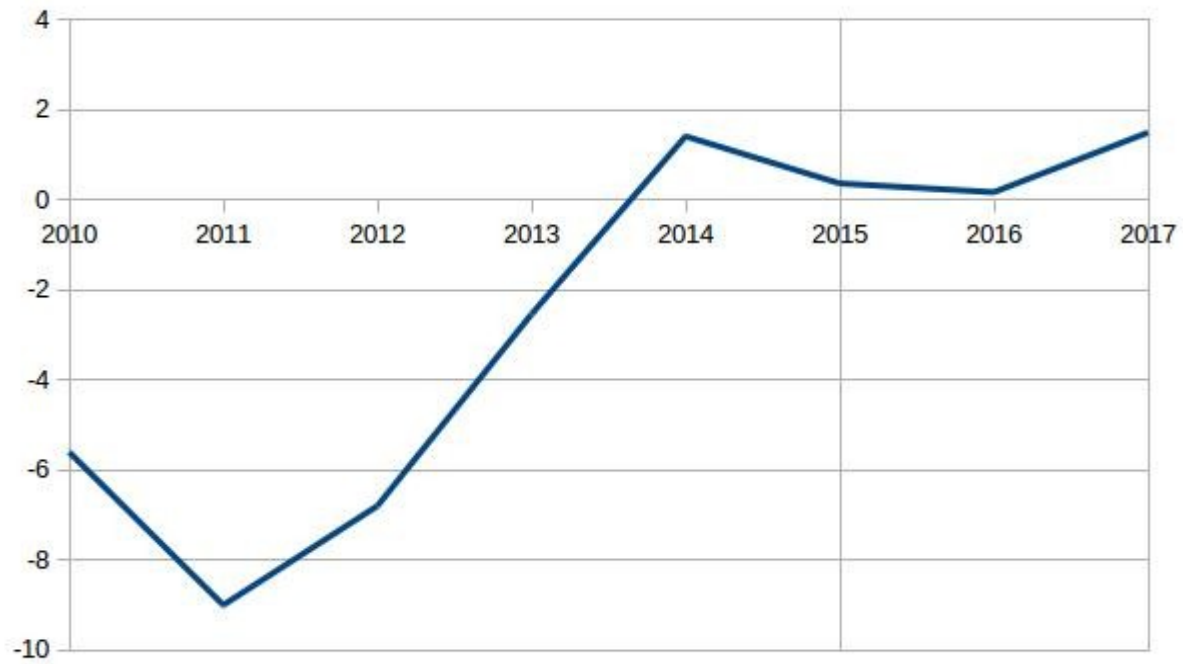
on Greece:

“A yes vote would mean depression almost without end. Perhaps a depleted country – one that has sold off all of its assets, and whose bright young people have emigrated – might finally get debt forgiveness; perhaps, having shrivelled into a middle-income economy, Greece might finally be able to get assistance from the World Bank. All of this might happen in the next decade, or perhaps in the decade after that.

By contrast, a no vote would at least open the possibility that Greece, with its strong democratic tradition, might grasp its destiny in its own hands. Greeks might gain the opportunity to shape a future that, though perhaps not as prosperous as the past, is far more hopeful than the unconscionable torture of the present.

I know how I would vote.”

Depression Almost Without End



Advice not to Follow

- No working economist with expertise in the area agreed with this advice
- You don't sell many books by telling people that life is tough
- Although if your political leaders have managed to run up huge debts on your behalf it is tough...
- You would have to be barking mad to take the advice of these fellows
- Look for sense not rhetoric

Disagreement Among Economists? Not so much so...

Things all economists agree on

- tax incidence: doesn't matter who write the checks
- lowering non-tariff trade barriers benefits the country that lowers the barriers
- “jobs” are not exported
- Venezuela
- Large increase in the minimum wage
- Lower tax rates (versus lower tax payments)

Common Sense: Overnight Markets

- enables firms to hold a smaller cash reserve, so get a higher interest on the extra
- in a firm with billions in annual revenue perhaps worth a few millions
- So worth paying someone a few hundred thousand to do it

But when the New Yorker...or the head of the Federal Reserve Bank... says how when this market gets frozen it is a danger to the entire economy, I say: don't worry about overnight paper - worry about toilet paper because it is a lot more important

it isn't that common sense is always right

just if someone says something that goes against common sense they have a lot of explaining to do...and it better not involve big words and talk about studies that haven't yet been published in obscure journals

A Few Things to Look for in Experts

- What did they get the Nobel Prize for?
- Where do they teach now?
- Do they work for some partisan think tank?
- What do they do research on?

What Ideas are Suppressed

- when people complain about ideas being suppressed
- they usually mean: nobody wants to listen to my bad ideas
- or: “I am a charlatan”
- be wary of those who know all the answers

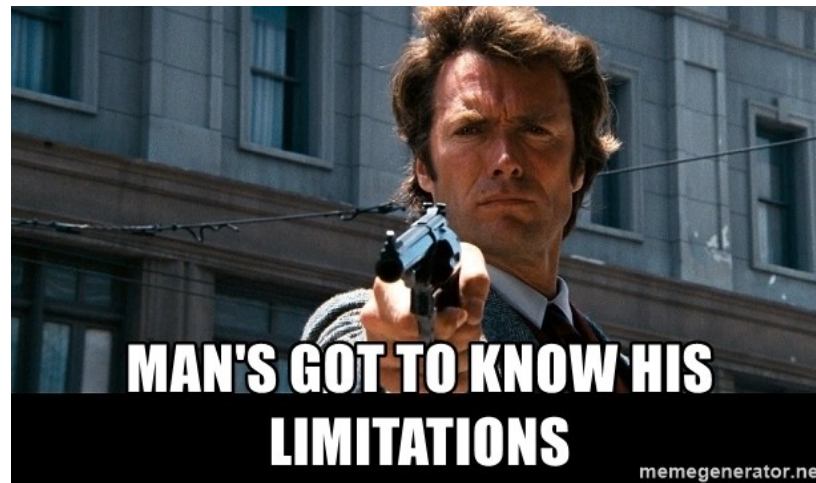
What I do know

- how you can destroy your economy

What I don't know

- how to fix it after you break it

Know what cannot be true...



- be numerate
- use common sense
- ask questions
- expect answers

Recommended Reading

- *How to Lie with Statistics* by Darrell Huff