

The Role of Economists in Irish Public Life Stephen Kinsella, UL

Some thoughts ahead of my Irish Debate.com talk.

Let's start with some terminology: There are many 'brands' of economist:

1. The academic-academic economist: you've never heard of these guys. They publish in peer-reviewed journal articles, and are internationally well respected, they generally stay off blogs, radio, etc. Examples would be Dr Ashley Piggins, from NUIG, and Prof. Denis Conniffe and Peter Neary from UCD.
2. The policy-academic economist. These guys wade into policy debates when they think they've got something to say. People like myself, Constantin Gurdgiev come to mind.
3. The academic-policy economist. These guys more or less only comment publicly on areas they have very specialized knowledge over. Examples would be my colleague Donal Palcic, and UCD's Liam Delaney, Colm Harmon, and Karl Whelan.
4. The Policy-Policy economists. These guys aren't normally academically affiliated, and run the gamut from Michael Taft and Nat O'Connor to Rossa White to Olver Gilbarry to Pat McArdle from Ulster Bank, now at the Irish Times, to Dan O'Brien at the Irish Times now, formerly at the Economist Intelligence Unit, to the economists at the Department of Finance, NTMA, Central Bank, CSO, Forfas, the ESRI, and shot-through the system in odd places like the IDA, EI, and EPA.

Let's move on to talk about functions.

There's a substantial body of knowledge economists have accumulated that have nothing to do with forecasting, but that's what people assume we do most of the time. In fact, that's about all we get asked to do, and what we get accused of getting wrong, most of the time. Why didn't you guys see it coming? That's a fairly common question I get asked. The answer is: I wasn't looking for it, nor were 95% of my colleagues, because that's just not what we do. Most economic studies look at the past. We try to identify causality in some data series, or we try to improve on someone's theory. Macroeconomic and financial forecasting just isn't what most of us do. It certainly wasn't what I was looking at when I came back from the USA. I was interested in health economics, primarily. Once I did start looking at this stuff carefully in early 2007, I started coming to lots of the same conclusions as Brian Lucey and Alan Ahearne, though I confess I thought Morgan Kelly's predictions were too pessimistic. How wrong I was!

So the first function the public expects of us—forecasting and modeling—wasn't done particularly well by those charged with forecasting, in the DoF, but that shouldn't surprise anyone to learn that there were less than 3 PhD-qualified economists in the DoF actually running these forecasting models. In the ESRI, they were issuing warnings that were, largely, ignored, when they were issued. We'll return to this problem, because it's deeper, and harder to solve, than just hiring 3 or 4 Alan Ahearnes.

The second function the public expects of us is as a sort of interface between these omniscient breakers of countries—THEMARKETS!—and the body public. We are asked to explain what the markets want, what they expect of Ireland, and what all those numbers mean for John and Jane's mortgage. This task normally gets given to a policy-policy economist of the Rossa White or Pat McArdle or Jim Power variety. (I'm not having a go at any of them individually, I should say). They've got more credibility with the public, because they represent, or represented, 'real world' trading houses, the radio stations have their numbers, and that's a part of their job. It is only very recently someone like Brian Lucey got on radio show editors' speed dials under 'policy wonk'. Academic-policy people don't have the numbers to hand, it isn't their bag, or they can't be bothered that day, because they don't see it as their job. The problem with this is that the public only hears one view—the banking establishment. So the public are told of 'soft landings' when what we need to hear is that 'soft landings' are hypotheses born out of one way of seeing the world, and given to you by someone with a vested interest in keeping things the way they are. In recent years, the issue of stockbroker-economist dominance of the airwaves has been shattered, and hopefully this will continue once the economy begins to recover. Nobody seems able to see that THEMARKETS! are really a load of twenty- and thirty-somethings, most of whom haven't read a single piece of economic history, who were taught irrelevant economics 5 years ago that they forgot, and who are scared out of their minds they'll be fired in 15 minutes for getting a call wrong. THEMARKETS! are not omniscient—far from it—one of the biggest problems we have is that they act on incomplete information. We need to start treating these guys with a polite disdain, rather than obeisance. We are paying them very handsomely to hold our debt at the moment, let's not forget.

The third function economists should be providing is advice and analysis at cabinet level. The arrangement at the moment is fairly ad-hoc: there's no stipulation that the Minister for Finance *needs* a PhD economist with the training and reputation of, say, Philip Lane, beside him, giving him pointers, options, and analysis, and Lane being given a team of economists and public policy people to help him give that advice. That's a bad thing. At other levels, economists can slot in as and where their expertise is required.

The fourth function economists should be providing, but don't, is scenario-planning. Every government department, semi-state, and quango has a filing cabinet stuffed full of plans for the future, which rarely, if ever, get implemented. Someone needs to start pulling all that together soon. Small states need to be strategic if they are to survive, to paraphrase Joe Lee.

Now let's talk about skills. What can economists do?

Economists are pretty good at most things, bar dancing. Never, ever, go to an economics conference and stay sober. The Saturday night dancing is just, well, you get the idea. Of course we're fairly handy as fifth-rate mathematicians go, at manipulating simple models to fit stories we have about patterns we see in the data the economy throws up at us, like the growth rate of output, or

unemployment, or household consumption. We call these stories ‘models’, and dress them up in mathematics, because the maths is cool, and it helps us keep the story straight. Maths also intimidates other social scientists, who work with fuzzier kinds of data. So economists are good at finding causal stories to fit patterns in data, using statistics bolted onto economics, called econometrics. Most of us spend lots of time doing either model building or model fitting. Once the model has some numbers that look robust (in other words, confirm or disprove our story) we start telling people about them. To recap: economists are really good at taking data, and fitting patterns to that data. Note I said nothing about forecasting. We’re really, really crap at that. Because everyone else is, too.

When we start getting to talk to people in the real world, that’s when the problem starts. In terms of generic skills, the economist should be numerate, and should be able to communicate well with numbers. She should be able to write well—to persuade and inform with her words, and with her evidence. She should also come with a disclaimer: just my opinion. Too often the words of Professor Blah and Dr Yadda Yadda get repeated like someone burned their name on the face of the moon: economists are given too much credence in some spheres, and totally ignored in others, where they could make a real difference. The economists serving up policy advice to Minister for Finance Brian Cowen were few and far-between. That should change, with people like Patrick Honohan and Alan Ahearne given serious roles in the

In the end, the role of the economist in public life is exemplified, in my mind, not by Morgan Kelly per se, but by Philip Lane, and Kevin O’Rourke. These guys didn’t have to start getting involved in policy debates, but they did, and as a result the level of debate was raised, especially internationally.