What Good is *Business Week* Anyway?

Written by Jeff Thredgold, CSP, President, Thredgold Economic Associates

For those who missed it, the April 27 cover story of *Business Week* was entitled "What Good Are Economists Anyway?"

…ouch

…Perhaps the magazine's editors simply got tired of trashing the American economy week after week after week…

…turnabout is fair play

The premise to the story is that economists mostly failed to predict the worst economic crisis since the 1930s. Now they can't agree how to solve it.

No argument here. As we have noted before, the consensus of forecasting economists a year ago was for weaker, but still positive, U.S. economic growth during 2009.

The article goes on to give a harsh and sometimes reasonable assessment of the challenges and pitfalls of economic forecasting. As we have also noted frequently, economists provide forecasts of the future not because we *know* what is going to happen. We provide forecasts because we are *asked* to…

…there's a big difference

Big Government

The article focuses in part on the debate between different camps of economists as to the role of government in the current economic and financial crisis. The Keynesian approach, named after British economist John Maynard Keynes (pronounced Canes, 1883-1946) is aggressively being embraced by the current Administration. The Keynes approach focuses on fiscal stimulus…massive government spending…as the means to boost demand and re-employ people.

The magazine notes that last January then-President-elect Obama stated, *"There is no disagreement that we need action by our government, a recovery plan that will help to jump-start the economy."* Not long after, some 250 conservative economists, in an open letter published in major newspapers, wrote: *"With all due respect Mr. President, that is not true."*

Another View

Many economists of the past 40 years have focused more on the role of the Federal Reserve in using monetary policy to smooth economic gyrations. This Monetarist view, whose principal advocate was Milton Friedman (1912-2006), was embraced by former Federal Reserve Chairman Alan Greenspan, who served as Chair from 1987 to early 2006.

This approach had some success, with but two short and mild U.S. recessions between late 1982 and late 2007, a period of 25 years…then all hell broke loose.

During his latter years at the Fed, Greenspan denied that a national housing bubble was even possible, since housing was not a single national market. He also argued that financial markets would effectively self-regulate and brushed off dangers of Wall Street concoctions such as derivatives…

…only last year did Greenspan concede that he was wrong

From Here

There will be no major consensus regarding economic thought in coming years. The U.S. economy continues to provide glimpses of stabilization and impending improvement, led by the stock market. The consensus of forecasting economists still sees U.S. economic growth turning positive before the end of 2009 (see reverse side).

When a clear U.S. economic recovery is in place, the Keynesians (including the current Administration) will take credit for leading the return to growth. The critics of massive government spending will suggest the resilient U.S. economy recovered *despite* massive government spending. These critics will also point to the long-term peril of continuing enormous deficit spending.

The debate about the role and value of economists will continue…that much is clear. To quote a friend of mine, Todd Zagorec, it's high time economics was given the respect and status it deserves alongside all the other occult sciences.

…ouch again

Tea Leaf

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Your guide to understanding today's economy and financial markets

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USA TODAY Money

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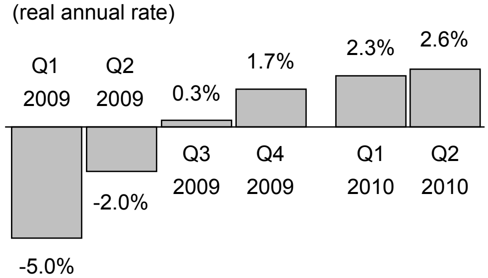
Quarterly economic survey

The USA TODAY economic survey of 51 top economists was conducted April 16-22. Median estimates through Q2 2010:

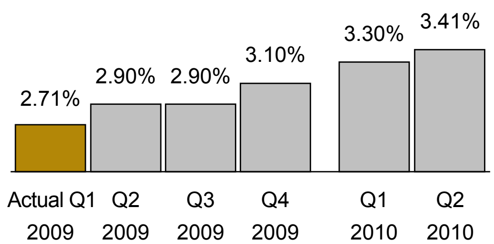
Gross domestic product

(real annual rate)



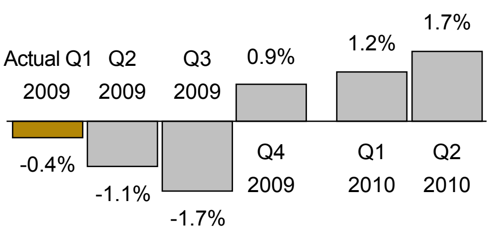
10-year T-note yield

(quarter end)



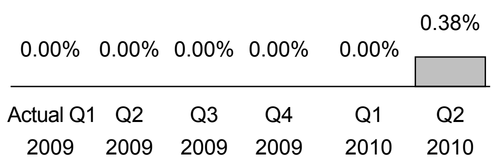
Consumer price index

(rate of change, 12 months ended)



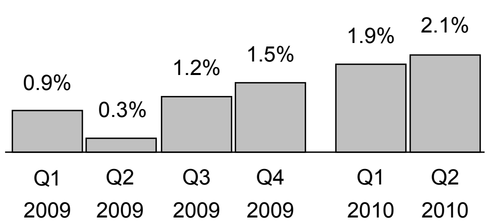
Federal funds rate target

(quarter end)



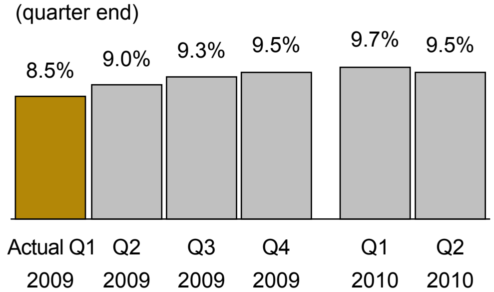
Consumer spending

(real annual rate)



Unemployment rate

(quarter end)



Survey participants: Tucker Adams, The Adams Group; Scott Anderson, Wells Fargo; Nariman Behravesh, IHS Global Insight; Richard Berner, Morgan Stanley; David Berson, The PMI Group; Jay Brinkmann, Mortgage Bankers Association; David Crowe, National Association of Home Builders; J. Dewey Daane, Vanderbilt University; Richard DeKaser, Woodley Park Research; Rajeev Dhawan, Georgia State University; William Dunkelberg, Boenning & Scattergood; Lyle Gramley, Soleil Group; Ethan Harris, Barclays Capital; Maury Harris, UBS; William Hummer, Wayne Hummer Investments; Dana Johnson, Comerica Bank; Hugh Johnson, Johnson Illington Advisors; Paul Kasriel, Northern Trust; Timothy Martin, Bank of America; Ken Mayland, ClearView Economics; Dan Meckstroth, Manufacturers Alliance/MAPI; Jim Meil, Eaton; Robert Mellman, J.P. Morgan; George Mokrzan, Huntington National Bank; Richard Moody, Forward Capital; Joel Naroff, Naroff Economic Advisors; Frank Nothaft, Freddie Mac; Donald Ratajczak, Morgan Keegan; Martin Regalia, U.S. Chamber of Commerce; David Resler, Nomura; David Rosenberg, Merrill Lynch; Chris Rupkey, Bank of Tokyo-Mitsubishi UFJ; John Ryding, RDQ Economics; Stanley Sedo, University of Michigan; Joshua Shapiro, MFR; Robert Shrouds, DuPont; Allen Sinai, Decision Economics; James Smith, Parsec Financial Management; Sean Snaith, University of Central Florida; Sung Won Sohn, California State University; Neal Soss, Credit Suisse; Diane Swonk, Mesirow Financial; ***Jeff Thredgold, Thredgold Economic Associates***; Bart van Ark, The Conference Board; Chris Varvares, Macroeconomic Advisers; Mark Vitner, Wachovia; Brian Wesbury, First Trust Advisors; David Wyss, Standard & Poor's; Richard Yamarone, Argus Research; Lawrence Yun, National Association of REALTORS; Mark Zandi, Moody's Economy.com

"TEA"ser

He has Van Gogh's ear for music.

—Billy Wilder

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