

Of economists, dentists

FIJI SUN July 30, 2010



T.K. JAYARAMAN

It was at the Los Angeles Airport last weekend.

Flipping through my passport and finding my valid work permit, the lady at the Continental Airlines check-in counter was curious to know the subject I am teaching. Smugly, I replied, 'Economics.'

The reaction was swift: "Yuck!"
I was stunned and speechless.

Realising my discomfort, she tried to reassure me: "Never mind" and then went about her work this time at great speed.

Without any further exchange of words, she issued the boarding pass and baggage tags. I was literally sunk, with a wounded feeling at that reception from the check-in-counter and quietly wondered; "Is the profession of economist becoming less acceptable?"

I recalled the aspirations of Lord Keynes, who revolutionised economic thinking in the 1930s. He wrote that economists would soon be thought of "as humble, competent people, on a level with dentists".

What happened since then? Have they become arrogant and incompetent to be despised by common citizenry?

'Unusual uncertainty'

No wonder, as the events of last week, some telecast live and some talk shows repeated once in four hours on television, splashed through my mind as I went through the security check. The United States Federal Reserve chairman Ben Bernanke appeared before the US Congress for his bi-annual testimony and painted a bleaker picture than before. In his statement to the House Financial Services Committee, he described the current situations as one of "unusual uncertainty".

As usual, the stocks plunged on his utterances.

It was not unusual as Americans are now attuned to listening to increasingly more and more pessimistic analysis on the US economy.

By introducing a new phrase, 'unusual uncertainty', he meant only that the data on jobs was weak and uninspiring and the private sector could not create the much expected 100,000 jobs, a level needed to keep pace with population growth and rise in labour force.

Uncertain, because the Keynesian remedy of fiscal stimulus of US\$787 billion approved by President Barack Obama last year has not yielded the results,

Need for more stimulus?

In the meantime, President Obama extended unemployment benefits to the jobless for an additional six months: the bill is US\$34 billion. How to raise it: another round of public borrowings for financing the budget deficit?

The fiscal deficit stands at one trillion dollars and the Federal debt is US\$13.2 trillion, about 60 per cent of the country's yearly output.

Added to this, the conservative media machinery, led by Fox News TV channel, has mounted a vigorous campaign against the Obama administration.

Citing the failure of the fiscal stimulus, and mounting debt, they are dubbing Obama as a "socialist", an ugly word in American party-politics, who would lead America down the *Road to Serfdom*, the title of a famous book by Friedrich Hayek who waged a war against the totalitarian, socialist states.

The US political scene is now politically polarised, which has seen the emergence of fiscal conservatism.

The tax cuts introduced by President Bush in 2007 are coming to an end. If continued beyond December 2010, it will add another US\$2 billion to the current fiscal deficit of US\$1 trillion. Any talk of further stimulus does not carry any conviction.

So as Bernanke, who is also known as "Helicopter Ben" for his recipe for fighting depression through government spending, indicated, the Fed would be ready to ease monetary stance for growth. The markets received the news with skepticism.

European Scene

The European Central Bank (ECB) President Jean-Claude Trichet, encouraged by signs of recovery in Europe, is against any more stimuli. In his July 23 article in the Financial Times of London, he described the fiscal stimulus call as oversimplified under the motto: stimulate, activate and spend. As there was little room for some countries, public spending led to rise in debt.

It is estimated public debt would rise in Europe by 20 percentage points during 2007-2011 and in the US by 35 and in Japan by 45 percentage points.

So Trichet's call is: No more stimuli but only tightening!

Asian scene

Asian economies, especially China and India, are uncomfortable with the notion of any tightening in industrialised economies. In Toronto at the G20 Meeting, Indian Prime Minister Manmohan Singh cautioned against any premature withdrawal from fiscal stimulus. His concern is understandable: exports from poor countries to the West will decline and Asia's growth prospects would be severely affected.

So where do the economists stand?

Models to rescue?

Given the magnitude of annual budget deficits and ballooning of outstanding public debt in industrialised countries, Europe central bank President Trichet ruled out the application of standard linear economic models, which are used to forecast the impact of fiscal stimuli or fiscal restraint.

Declaring the economic models as unreliable, he observed that in extraordinary times, the economies are close to non-linear phenomena of rapid deterioration of confidence amongst households and enterprises, and savers and investors.

In such circumstances of uncertainty when confidence is at stake, Trichet stressed the need for fiscal consolidation. No econometric models to resort to!

Nearer home

Addressing the economists gathered at the recent Fiji Update, Fiji Reserve Bank Deputy Governor Barry Whiteside recalled the old saying: put a number of economists in the same room and we will all have differing views! Why?

Nothing is certain in uncertain times: more views are better than the already known views.

Not very long ago, Secretary of Defense Rumsfeld under President Bush administration won a "Foot in Mouth" award by the British Plain English Campaign in 2003 for "nonsensical remarks by a public figure", when fighting terrorism.

"As we know, there are known knowns; things we know that we know. We also know there are known unknowns; things we know that we do not know. But there are also unknown unknowns, the ones we don't know that we don't know"

They are not nonsensical any more.

Now, after the famous unknown unknowns, we have another phrase added to economic lexicon by Ben Bernanke, the world's most powerful central bank chairman: unusually uncertain times.

As I took my seat in the plane for the flight to Nadi, I returned to the question: why economists have not lived up to the expectations of Keynes: "becoming competent people, on

a level with dentists”.

Fortunately, as I looked through the delightful piece in the Letters to the Editor column of the *Financial Times*, I got the answer.

Greg Parston of London wrote thus:

“Since then, fluoridation, better oral health and tooth sealants have contributed to reductions in the demand for, and the supply of dentists. Can we hope for similar preventive breakthroughs in economics?”

**** Dr T.K. Jayaraman teaches economics at the USP. Views expressed are his own and do not reflect those of USP.***