How business economists keep their jobs

Lessons for ag economists and their institutions

by W.D. Dobson and Patrick Luby

Business economists had to scramble to keep their jobs in the business environment that emerged in the 1980s and early 1990s. Many succeeded. But some were sacked before they had time to adjust. "Big picture" economists, in particular, found they were among the first to go in a corporate reorganization or recession. L.O. Michaelis, chief economist at Weyerhaeuser Company and former president of the National Association of Business Economists (NABE), described the job environment existing in the early 1990s for business economists this way: "Inside a company if you are not influencing decisions and the outcome of the business over time, you are likely to lose your job."

J.E. Silvia, chief economist at Kemper Financial Services and a NABE director, expressed the formula for keeping a job as, "Show me someone who is a direct contributor to profit centers and I'll give you an employed economist." The experiences of business economists provide lessons for university agricultural economics departments and the Economic Research Service (ERS) of the U.S. Department of Agriculture.

How changes in the business environment affected the need for business economists

Anyone who reads the financial news is familiar with changes in the business environment and adjustments firms have made in response to it. Profit squeezes have intensified as a result of global competition, leveraged buyouts, erosion of brand values, commodity price reductions, and so forth. Both agricultural and nonagricultural businesses have been affected by the developments, many of which will endure after any business upturn. Jobs have been lost. Whole layers of middle management people, staff economists, and other staffers whose contribution to profits could not be documented were discharged or transferred to company units where their contributions could be linked directly to profits. Companies turned to consultants to obtain staff services, reduce wage and fringe benefit costs, and avoid long-term commitments to employees. Some businesses substituted management information systems for staff personnel.

Employment adjustments in the food industry

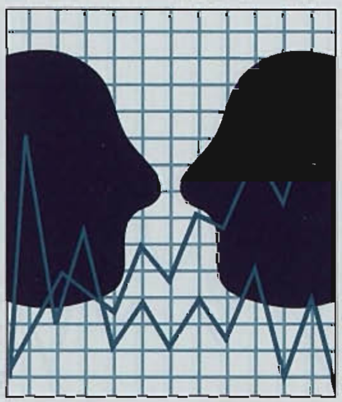
Experience in the food industry suggests that the market for economists has shrunk as the needs of agribusinesses have evolved. The secular decline in real prices of agricultural commodities that continued into the 1990s and the increasing amount of services attached to food products caused raw product costs to decline as a proportion of total input costs for many agricultural businesses. These changes made food marketing firms less concerned about agricultural commodity supplies and prices and more concerned about other inputs which had become scarcer and exhibited greater price volatility. Capital and energy fell in the latter categories at times during the 1970s and 1980s, and required more attention from analysts and management. For those involved in international marketing, currency fluctuations also took on increased importance. The expanded need for expertise in finance, foreign exchange risk management, and energy procurement and the decrease in need for agricultural price forecasts often led agribusiness firms to MBAs rather than agricultural economists.

Increased emphasis in food marketing firms on branding, promotion, advertising, packaging, labeling, marketing research, pricing and positioning of processed food products also led recruiters for those firms to MBAs who had more exposure to consumer marketing than new economists or agricultural economists.

Employment adjustments in banking

Banking provides an example of a shrinking job market for economists in the nonagricultural sector. In the banking sector, fewer jobs remain for bank economists because of restructuring, changes in ways banks do business, and the emergence of forecasts and other services which substitute for those previously provided by resident bank economists.

As part of restructuring, banks, including Bankers Trust Company, Chase Manhattan, Chemical Bank, Continental Bank and Citibank, have either eliminated or reduced the size of the their economics departments. Economists in the units were either discharged or assigned to line units within the banks. A noteworthy dissolution occurred at Citibank in 1986 when the 100-member economics unit was eliminated after Citicorp chairman Walter Wriston was disappointed with the unit's inability to produce services that would allow it to pay its own way (Linden).



Employment of economists in banks has fallen as these firms have shifted away from managing interest-rate risk exposure through use of interest-rate forecasts to newer concepts of duration-gap management. The latter approach seeks to immunize a bank's stream of earnings against changes in interest rates. As a result of this change, financial technicians trained in business schools frequently have taken over the job formerly done by economists.

Consensus forecasts—notably *Blue Chip Economic Indicators*—have substituted for interest rate, GDP, and inflation forecasts and other forecasting services previously provided by bank economists.

> *For agricultural economists, the move was often from research or market analysis to line positions.*

Actually, it is not even necessary to subscribe to a consensus forecast to get low-cost economic forecasts. Federal Reserve economists and economists employed by large commercial banks provide economic forecasts free of charge to many businesses, further eroding the demand for the services of resident bank economists.

Advancement opportunities for bank economists appear to have declined as a result of these and other developments. In the mid 1980s, the directory of the National Association of Business Economists shows 150 economists carrying the title of vice president. In 1991, only 86 economists had this title. The decline was similar for economists carrying the senior vice president title, which often identifies the head of a bank's economics department and a person on the track to upper management. The number of economists in such positions more than doubled between 1969 and 1985 from 20 to 45 and declined to 27 in 1991 (DePrince and Ford).

How concentrating on forecasting created problems for business economists

While many developments have made business staff economists an endangered group, problems with economists' forecasts are among the most important. Employers' disillusionment with business staff economists occurred because of problems with macroeconomic forecasts (GDP, interest rates, inflation, employment, etc.), in particular, and a lack of certainty on the part of managers about how to use economists' services.

Business economists point out that macroeconomic forecasting became more difficult after the 1960s. Beginning in about 1973, simple extrapolations no longer produced consistently accurate macroeconomic forecasts. Neither did huge computer models. Accordingly, managers found economists' forecasts of more limited value for use in making strategic and operating decisions. Even if accurate, macroeconomic forecasts were probably of limited use to some agribusiness firms, since, as Daniel points out, the demand for U.S. crop products and demands for inputs whose sales are linked to crop values often are not closely associated with conditions in the general economy.

D.W. Linden, writing for *Forbes*, describes the impact of dissatisfaction over macroeconomic forecasts on the business economist as follows (p.69):

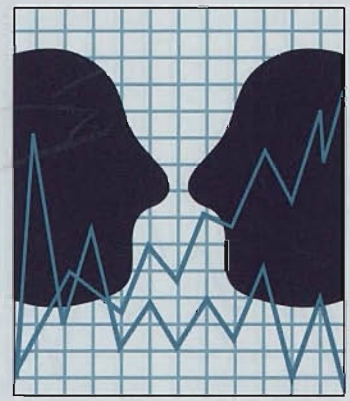
"Having a house economist became for many business people something like having a resident astrologer for a royal court: I don't quite understand what this fellow is saying but there must be something to it. Against a big corporation's $1 billion annual payroll, what was $5 million a year for the economics department? Then came the great profit squeeze that has yet to abate. Unnecessary costs were cut. And even the most trusting were becoming disillusioned with the forecasts."

Linden's comments also suggest what can happen when business executives lack knowledge about how to use economists' services. Executives who are unfamiliar with economists' capabilities tend to ask economists to concentrate on what they think economists do, which is forecast the future. In view of the difficulty of doing a consistently good job at this task, the effects of concentrating on forecasting on the demand for economists' services were predictable. Business economists who fell into the "forecasting only" trap found it difficult to keep their jobs.

Business economists who fell into the "forecasting only" trap found it difficult to keep their jobs.

How business economists adjusted

Surprisingly, business economists remain upbeat about the demand for their services. According to Silvia, "big picture" economists who wrote general essays for businesses that contributed little to profits have been weeded out. But adjustments made by other business economists have stabilized their numbers. Many staff economists shifted to line positions where they have more influence on decision makers. For agricultural economists, the move was often from research or market analysis to line positions. Still other economists found themselves doubling as economists and risk management, public affairs, or lobbying officers. Many shifted from macroeconomic forecasting to microeconomics and industry studies. The experience of A. Murray, formerly a Citibank economist, now a credit analyst for Fuji Bank of New York, illustrates the latter trend. Murray now analyzes how individual companies and industries behave rather than predicting the next wiggle of GDP, and believes he makes a greater contribution to bank profits this way (Linden).



Brinner and Winsby argue that business economists have opportunities for additional work in line and other business units dealing with operations research, planning, market research, finance, investment policy, purchasing, marketing, and sales. Presumably business economists will have to show they have more to offer than MBAs if they wish to get a share of this work.

Michaelis contends that business economists can sustain a demand for their services if they recognize that they must sell those services. Successful selling, he indicates, requires an understanding of the decisions that need to be made in the business, providing information and insight that facilitate those decisions, and clearly labeling the limitations and content of the information being supplied. He also advocates implementing a certification program to help maintain high quality in the business economists' profession.

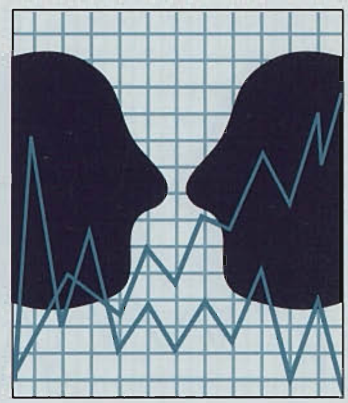
Lessons for ag economists and their institutions

What does this mean for university agricultural economics departments and the ERS? Bonnen points out that land grant university administrators now believe they need social science help, but have discovered that agricultural economists are unresponsive, spend time publishing for a national audience of other agricultural economists, and are not interested in working on the real problems at the state and local level. Partly to avoid similar criticisms, the ERS has emphasized staff work for congressional committees and the administration, performed studies mandated by recent farm bills, and published numerous reports for industry and consumer groups. This work has generated support for the ERS, but it has not allowed its size (about 440 professional economists in December 1992) to go unnoticed in a time of budget austerity. Questions were raised during budget deliberations early in 1993 about whether the USDA needs such a large cadre of economists in the ERS unit. One U.S. senator, presumably in jest, suggested that the USDA needed only one economist. Comments from officials of USDA action agencies indicate that these agencies want more help from the ERS.

Because of tenure and its counterpart in the federal government, many veteran agricultural economists at land grant universities and ERS employees will avoid the ax that has fallen swiftly on some staff economists in business. New hires at universities and the ERS obviously don't have the same job protection.

But concerns similar to those which caused businesses to sack economists are not absent from land grant universities and the federal government. They just produce change more slowly. At the University of Wisconsin-Madison, for example, the new dean of the College of Agricultural and Life Sciences has made it clear that if the agricultural economics department fails to work with other college departments (animal science, dairy science, agronomy, horticulture, biotech departments, etc.) on problems of real importance to the state, the department will be smaller in the future. His language has been polite but unmistakably clear on this point. Indeed, if the department is unresponsive in this matter, trying to sneak approval to recruit a replacement for a retiring agricultural economist past him will be like trying to sneak the sunrise past a rooster. Additional agricultural economists may be placed in the college's other departments if the agricultural economics department fails to help solve important interdisciplinary problems.

In the ERS, the concerns apparently will manifest themselves through budget cuts and gradual reductions in personnel. If, as seems likely, additional economic expertise is needed in action agencies, some augmentation of the economics groups in the Agricultural Stabilization and Conservation Service, Agricultural Marketing Service, Foreign Agricultural Service, and other operating agencies might be expected. Increases made in recent years in the economics staff of the Agricultural Stabilization and Conservation Service to expand the unit's ability to analyze the impacts of agricultural programs are representative of changes that can be expected. Such moves are the counterpart of transferring staff economists to line organizations within businesses. In addition, like the university agricultural economics department that must work with other departments or shrink, the ERS may face similar incentives to work more closely with scientists in the Agricultural Research Service of the USDA.



The ERS faces additional uncertainties as a result of the Clinton administration's effort to reinvent government and associated reorganizations of the USDA. Secretary Espy originally proposed that the name of ERS be changed to the Agricultural Economic Service. The name change, which has been abandoned, apparently did not foreshadow any narrowing of the agency's mission. This is noteworthy since a narrower, agricultural service-oriented mission for the agency could foster additional reductions in its budget and personnel. However, the ERS probably will absorb its pro rata share of any widespread personnel and budget cuts associated with the administration's reinvention of government.

Job loss or reassignment to line units is the wage for producing economic forecasts of doubtful value in businesses. Land grant university and ERS forecasters might put additional effort into meeting customer decision needs, assessing whether forecasts disseminated are of value to decision makers, and eliminating those found wanting.

MBAs, as noted earlier, have displaced economists from many business jobs. What lessons emerge for agricultural economics departments wishing to develop strategies for competing successfully with MBA programs? MBAs complete course work emphasizing marketing, finance, accounting, real estate, insurance, operations research, and other applied subjects and typically receive only limited graduate-level economics training (Michaelis). This training regime, with its limited emphasis on economics, permitted MBAs to compete successfully against economists, agricultural economists, and graduates from other disciplines for many business jobs during the 1970s and 1980s. The successes of MBAs in the job market triggered a large supply response from new and existing MBA programs. Thus, in 1990, about 77,000 MBAs—57 percent more than a decade earlier—were disgorged from accredited and non-accredited MBA programs in the U.S. (Byrne). Because of dilution of quality produced by the larger numbers, businesses have become more skeptical of the talents of the average MBA. Consequently, MBAs from premium business schools still command big bucks, but this is not true for many graduates of middle and lower-tier schools.

Implications that emerge from these developments for agricultural economics departments include: (1) more than minor tinkering would be required to convert the master's degree in agricultural economics, with its economics underpinning, into a close substitute for an MBA degree; (2) if agricultural economics departments could produce passable substitutes for MBA degrees, it probably wouldn't make sense for many to do so since the

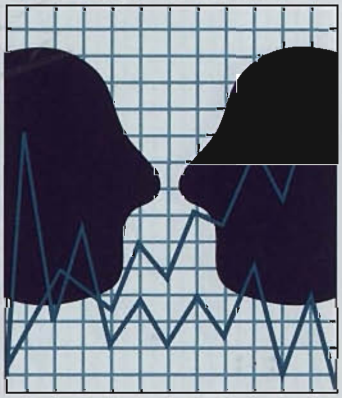
Pursuing a niche marketing strategy should enable agricultural economics departments to help graduates gain new job opportunities.

market for MBAs appears to be nearly saturated; and (3) agricultural economics departments might find it advisable to concentrate on supplying niche degree markets that emphasize applied economics.

Pursuing a niche marketing strategy should enable agricultural economics departments to help graduates gain new job opportunities. In particular, agricultural economics departments should be able to train applied economists to compete effectively against MBAs for consulting jobs that will become more numerous as businesses shed full-time staff people. Graduates of these departments are likely to be more competitive for such jobs if they complete applied research on problems important to businesses during their MS and PhD programs. In addition, applied economists preparing for consulting jobs must learn to write well and master appropriate tools, including a range of economic principles and certain tools used by MBAs. The importance of writing is hard to overstate. Good writing skills would help them keep consulting jobs and avoid the rap leveled at economists by Alfred Knopf who said, "An economist is a person who states the obvious in terms of the incomprehensible."

Summary

The major lesson emerging from experiences of business economists for university agricultural economics departments and the ERS is to become responsive or get smaller—perhaps much smaller. It will be difficult for the units to avoid major shrinkage since agricultural economists presently respond rationally to incentives. Current incentives reward publishing for a national audience of other agricultural economists, which often means giving little attention to state and local needs and to needs of action agencies in government. These incentives are deeply embedded in the tenure criteria of universities and the culture of agricultural economics departments. While not as strong, these incentives also exist within the ERS. Creating incentives to save people in these organizations from the fate suffered by royal astrologers in business will be a difficult challenge for denizens and administrators of these units. This subject and strategies which agricultural economics departments might use to compete effectively with MBA programs deserve more attention than they have received. ■



W.D. Dobson and Patrick Luby are Distinguished Professor and Adjunct Professor, respectively, in the Department of Agricultural Economics at the University of Wisconsin-Madison. Patrick Luby was formerly Vice President and Corporate Economist at Oscar Mayer Foods.

■ For more information

Bonnen, J.T. "Changing Roles of Agricultural Economists and Their Institutions." *American Journal of Agricultural Economics.* December 1992, pp. 1259-1261.

Brinner, R.E., and R. Winsby. "The Evolution of the Business of Business Economics." *Business Economics.* April 1989, pp. 32-34.

Byrne, J.A. "Do You Get Your Money's Worth—Grads and Educators are Weighing MBA Costs vs. Benefits." *Business Week.* October 26, 1992, pp. 71-72.

Daniel, R. "Implications of the Economic Environment for Farmers and Agri-Businesses." Paper delivered at Annual Meeting of the American Agricultural Economics Association in Baltimore, MD, August 10, 1992.

DePrince, A.E., and W.F. Ford. "The Changing Fortunes of Bank Economists." *Business Economics.* January 1993, pp. 50-55.

Linden, D.W. "Dreary Days in the Dismal Science." *Forbes.* January 21, 1991, pp. 68-70.

Michaelis, L.O. "If Economics Is Relevant to Business, Why Not Economists?" *Business Economics.* January 1993, pp. 10-14.

Sylvia, J.E. "Choices Taken Along the Highway." *Business Economics.* January 1993, pp. 47-49.