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Port Macquarie After Dinner Speech

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After dinner speech prepared for the 58th AARES Annual Conference,
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Port Macquarie Dinner Talk

INTRODUCTION

As you can tell from that very generous introduction, you are in good hands tonight. To put you further at ease I can say that I have been coming to this conference regularly for about 30 years and have always given an after dinner speech - although usually much later at night and to smaller less respectful audiences.

Just to make sure I was on the right track I checked Wikipedia

“An after dinner speech is a public address event that is traditionally spoken after a dinner”.

You can see why government ministers would go to Wikipedia for the scoop on climate change.

Wiki does goes on to say that

An after dinner speech is ‘meant to take an important topic and make greater sense of it through the use of humour that is relevant to the idea presented’.

John Kerin’s address last year was a great example of how to do it. Any one of these elements in this definition will prove a challenge for me.

Twitter

These days my principal research tool is Twitter. The opportunity cost of reading anything more than 140 characters is just ruinous for some one as gainfully employed as myself.

My favourite tweeter is Kate McClymont. She reports on ICAC and corruption hearings for the SMH.

On Nov 14 we had a quote from Paul Obeid

“My father won't read a paragraph...he's a big picture guy,”.

Again that day Eddie’s maate big Joe Tripodi said:

Some people have an interest in stamps but Eddie Obeid's "interest" is cafe leases”.

Then we go the Medich McQuirk inquiry

“Apart from firebombing a car, defrauding the bank, and participating in a murder Hais Safetli says he is an honest man.”

On aug 12 kate reported an interchange between Mr Tedeschi, counsel assisting the inquiry and referred to by Kate as the Terra and Lucky Gattelari

The Terra: Were you Mr Medich's standover man? Lucky Gattellari: I couldn't stand over anyone, I am only 5'6"

The Terra going through Lucky's "loans" book and remarking people were tardy repaying Lucky. Lucky says "I am in jail, everyone's tardy!"

It would be a pity to see an end to corruption

On dec 10 Annabel crabb tweeted :

A Liberal MP reports that a cheese shop proprietor in her electorate has decided not to hire an extra staffer because of the carbon tax

You'd probably read this in the Australian but not the SMH so You can see why I value Twitter so highly

I get a lot of fun from the Economists Style guide. Its author sounds like someone who has been editing the Australian j of ag and res economics for 50 years.

The guide suggests that the use of the phrase "*Of course*" may convey a sense of weary arrogance.

But if you want weary arrogance listen to these tweets for the ESG

Must all lawns be manicured? 14 aug

Are drug traffickers inevitably barons?

Must starlets and models always be scantily clad?

Avoid: famously (the sentence improved by the inclusion of this word has yet to be written)

"First the good news" is inevitably to be followed in due course by "Now the bad news".

Few of the decisions, people, industries described as "key" are truly indispensable, and fewer still open locks. August 17

Weary arrogance seems something we should aspire to

Nobel Prize

Anyway enough of these digressions .

Soon after I joined Twitter, last year's Nobel Prize in Economics was the subject of much traffic.

The Prize was awarded jointly to Eugene Fama from University of Chicago, Robert Shiller, Yale University and Lars Peter Hansen, also from Chicago. These three have worked to understand how the prices of financial assets vary through time. Hansen developed GMM generalised methods of moments for analysing time series data. Chris O'Donnell tells me all

my papers are just special cases of this technique so I won't spend any more time on Prof Hansen, just go to my papers.

One attraction of Twitter is that you can get a sense of the argument by just following the Twitter 'headlines'

Some headlines

WSJ 14.10.13 "Nobel laureates shiller and famma: the oddest of bedfellows"

NYT 14.10.13 'economists clash on theory, but will still share the nobel'

WSJ 15.10.2013 "Nobel linking Fama-Shiller not as shocking as some think

Quiggin 15.10.13 "why do we still have a nobel prize in economic sciences'?" whose side is this bloke on?

Economist 19.10.13 "Methods for all moments: the nobel prize in economics reveals how little we know about the behaviour of markets'.

So the two important issues that I will resolve here for you tonight.

- The efficiency of markets and whether price bubbles can be spotted and spiked?
- Is Economics a science worthy of a Nobel prize?

I think it is important for us all to think occasionally about how we do economics particularly relative to how scientists do their thing..

A warning from the ESG:

Like "interesting" and "funny", "important" makes assumptions about the word it describes that may not be shared by the listener. 30 jul

Efficient markets

Eugene Fama is famous for the efficient market hypothesis.

Market prices react very quickly to new information and hence prices follow a 'random walk' and are very unpredictable – certainly in the short run. The bottom line crudely stated is – you can't beat the market.

Famma's work led to the deregulation of financial markets – still trafficked on Twitter.

Shiller, noting that share prices should reflect future earnings found that they were far more volatile than dividends and hence argued

when share prices are substantially higher than dividends, a price correction can be expected.

'Irrational exuberance' is Shiller's explanation of this behaviour – title of his book

He is credited with predicting the bursting of the tech bubble in 2001 and the housing crisis in 2008

According to the Nytimes 14.10 2013 Fama was dismissive of Shiller's forecasting record suggesting that he had been predicting the recent collapse in a so-called housing bubble since 1996.

In his Nobel speech Fama said ***“the available research provides no evidence that price declines are predictable. Thus Confident statements about bubbles and what should be done about them are based on beliefs, not statistically reliable evidence”***

ESG on the use of quotes

The most pointless quote is the inconsequential remark attributed to a nameless source.

I think I am ok here, but in the past I have been guilty of using ‘inconsequential remarks’ by Julian Alston and not naming him. Sorry Julian I’ll be more careful in the future.

Any way getting back to the point, the arguments get a bit personal.

Shiller said :

The assertion that stock prices were rational was ‘one of the most remarkable errors in the history of economic thought’.

Fama countered saying ***“the fact that some individuals might be irrational doesn’t mean the market is inefficient”.***

Janet Yellen the new head honcho at the fed has said the Fed needs reconsider its traditional view that bubbles cannot be spotted and should not be popped.

This tension about whether markets are efficient plays out daily at Jonathon road orange. I have always been more Fama like in temperament whereas the short one over there is more Shiller like or more precisely she reckons that I should be more Shiller like.

An economist who doesn’t know when to fix an interest rate or buy foreign currencies is of not much use in our household.

Anyway I sat down with Shorty carefully explained these concepts of efficient markets and irrational exuberance and Shorty just does it now. It’s been great to know that I still have this skill of making complex concepts clear.

I hope these little diversions are of interest to you but as the ESG warns:

***Facts and stories introduced as interesting often turn out to be something else:
Interestingly, my father-in-law was born in Parkes.***

Better get back on track

What of Bubbles Now?

Famma observed that

The term bubble is widely misused. “I didn’t renew my subscription to the Economist because it uses the word bubble three times on every page’.

The ESG hasn’t picked up on this yet as far as I can tell

The Sydney housing market seems to be perennially bubbling.

according to Christopher Joye at the financial Review and previously of the Reserve Bank – “***This housing boom is different***”. He wrote this in October and it has generated a continuing stream of traffic on Twitter

What’s different this time is that not only are interest rates low but the growth in incomes has at about 3 % has been the half growth rate during previous housing booms.

The house price to income ratio is about 4 now and Joye reckons that even if the growth in house prices halves to 10%, by the middle of the year, this house to income ratio will exceed its peak of 4.24 from June 2010

We may be only six months away from Australia’s housing market being more expensive than it ever has been. I note that Joye is careful not to be definitive about when the bubble will burst.

Allan Kohler assured ABC viewers on Monday night the there was no bubble in house prices. I suppose that is the end of the argument.

I doubt if Famma would be impressed by a benchmark like the house price to income ratio and he would receive strong support from that scourge of benchmarkers Bill Malcolm.

The future directions of exchange rates and interest rates and this last week share prices have been the subject of as much speculation as housing prices.

I leave it to you to reach agreement on these issues over dessert but I will say that surprisingly enough – dare I use that phrase –the house price to income ratio has reached dangerous levels along Jonathon road orange. No one seems to care about the plight of those whose incomes are at the mercy of the old state super scheme.

Is economics a science?

So the second question was whether economics is worthy of a Nobel Prize.

John quiggin noted that the prize was first funded by the Swedish Reserve bank which was trying to gain independence from government by arguing for the ‘scientific’ nature of economics.

John says that perhaps in 1969 , macroeconomics - did give the appearance of scientific progress but argues that since then the façade has crumbled.

‘Economics is still at a pre-scientific stage’

....no agreement on fundamental issues’’

‘The result is that prizes are awarded both for ‘discoveries’ and for the refutation of those discoveries’.

The debate became pretty heated in the twittersphere

Raj Chetty in NYT 20.10.13 argued that *‘Yes Economics is a Science’’* and gave some examples of some good empirical research based on formulating and testing precise hypotheses which had important policy implications.

A few days later

The headline in the NYT by Krugman was (21.10.13) *“maybe economics is a science but many economists are not scientists’’*. He went on to say *‘too many economists refuse to accept empirical evidence that rejects their approach’*

All too many economists treat their field as a form of theology instead’.

The problem was not so much the unscientific nature of economics as the sociology of economists.

As equally contentious as this question of whether economics is nobel material has been the question of whether economists in the NSW Dept of Agriculture should be promoted as research scientists– not that you would have picked this up on twitter but it has been a consuming issue for some of us. Sadly not any more

I suppose that now that I am no longer subject to the research scientist inquisitions I am a bit more agnostic about whether economics meets the standards of science and I was able to read John quiggin’s comments with a muted degree of apoplexy.

In 1993 the Am JAE devoted its 75th anniversary issue to this topic of how we do economics and Alan Randall was a noteworthy contributor.

After working up a degree of righteous indignation in solidarity with Krugman and Contra quiggin, reading Alan’s paper again was a sort of ‘Settle petal’ moment.

“agricultural economics was always an awkward fit in the science box. And so relaxing this boundary between science and non-science gives more ready access to scholarship and reasoned discourse (rhetoric) than rigid adherence to a pure form of positive economics. Furthermore, it tends to make researchers more introspective about their own work, which is all to the good’

I have warning here from the ESG

Resist the kind of jargon that tries to dignify nonsense with seriousness.

I know that this warning specifically related to a Rob Fraser piece but perhaps Alan you should take heed.

I found it interesting that at the same time as this debate about the economics Nobel Prize was occurring, science itself was having a reflective moment.

SBS in promoting “Masters of Sex” promised some insights into how real scientists worked and so I watched every episode – and some parts several times. For those of you who missed it, it related how Bill Masters and Virginia Johnston studied human sexuality.

Shorty and I even tried to replicate some of their experiments but we never seemed able to attain the cool detached professionalism of Masters and Johnson – the hallmark of good science. Shorty had trouble with the stopwatch and I kept dropping the notepad.

Anyway it made me more appreciative of the difficult working environment under which other scientists operate.

If you read Stephan Hawking’s “A brief history of time” – a snap for us economists – you are reminded that Physicists too are still striving for a unified theory– one that reconciles the macro level general relativity stuff with the micro quantum mechanics stuff. I haven’t really got time to bring you all up to speed on this stuff. There is a paper on this last week in ‘The Conversation’ the electronic newsletter

More recently there has been a debate about trustworthiness .

The lead article in the Economist of October 19 was titled “*How science goes wrong*”.

The Economist argued that *‘modern scientists have done too much trusting and not enough verifying’.... ‘the false trails laid down by shoddy research are an unforgivable barrier to understanding’*.

Similar pieces in the New Yorker and Scientific American identified a “crisis in replicability”.

I think the real crisis is in the ability of scientists to communicate and gain acceptance for findings that while somewhat uncertain are highly probable. Think Climate change , gmo’s vaccination, etc . I suppose the crisis of replicability has not helped.

Conclusions

I think it is time to stop. I have picked on a couple of issues where economists hold divergent views. The twitterati get some enjoyment out of our discomfort but if this causes us to pause and think for a while about how we do economics and communicate our views then this is no bad thing.

I hope we have had a bit of fun along the way. A final word of warning from the ESG:

If you are an after dinner speaker for whom no words are horrible, you would do well to take up some other activity. 18 jul