

**Our Shows:**

**Marketplace**

**Morning Report**

**Money**

**Tec**

**Tuesday, September 21, 2010**

## **Don't bet on economic forecasting**

You can't predict the future. Commentator Justin Wolfers believes economists shouldn't be trusted to either.

*TEXT OF STORY*

**KAI RYSSDAL:** If you really think about it, what the Fed's trying to do when it meets to t interest rates is an amazingly complicated thing: Tease out what a \$14 trillion economy's goi like six months or a year from now, and then apply the right policy.

Commentator and economist Justin Wolfers says forecasting the economic future truly is a science.

---

**JUSTIN WOLFERS:** Economists and meteorologists know that forecasting is hard. But at wrong, we just get wet. When economists get it wrong, we get the Great Recession. And so past decade developing a new generation of models.

But two young researchers have raised big questions for this research program. They compa state-of-the-art models and elite forecasters. What did they find? All the leading approaches

Translation: Our forecasts of GDP, inflation and interest rates have been way off.

Here's a neat way of thinking about how badly these models fail. If in 1997, you'd trained a inflation will be 3.5 percent, and interest rates won't change," then your parrot would have c macroeconomists, who fine-tune their numbers daily. Or if your parrot just says "Whatever he's asked for a forecast, he'll still do as well as those Ph.D-toting economists hired by the le a salary.

Academic economists thought we were smarter than your parrot. We've trumpeted progress wait for it -- "Dynamic Stochastic General Equilibrium models." They're not just a mouthful decade of intense research. But if you ask these models to predict the future, they're no better.

Now, statisticians don't pretend to understand the economy, they just crunch the numbers. I'm worse.

Perhaps you trust people instead of computers. But the Fed's economists were no better. At the private sector, you really shouldn't. Their prognostications were also dismal.

Now, you probably knew that most economists failed to predict the 2007 recession. What's the Recession arrived, our complicated models failed to recognize the new reality.

Bob Dylan sung it best: "You don't need a weatherman/To know which way the wind blows."

And according to this new research, you don't need an economist to know which way the economy is blowing.

**KAI RYSSDAL:** Justin Wolfers is a professor of business and public policy at the Wharton School, University of Pennsylvania.

Recommend

5 people recommend this.

#### COMMENTS

By John Karam  
From Houston, TX, 09/23/2010

The study was done by former Wharton students working with Professor Wolfers. I was a classmate of theirs, and I can't say I'm the smartest person I have ever met. I think he can melt steel with his mind. If the research has been published already, I don't know the name.

---

**BY CHRISTINA HUH, MARKETPLACE STAFF**  
09/22/2010

The study that Justin Wolfers refers to in his commentary is in the side bar. But here is the link (PDF): [http://www.brookings.edu/papers/2010\\_fall\\_bpea\\_papers/2010fall\\_edgcurkaynak.pdf](http://www.brookings.edu/papers/2010_fall_bpea_papers/2010fall_edgcurkaynak.pdf)

---

By Curtis Campbell

09/22/2010

PLEASE!! I wish that APM would post a link, a reference, even a googleable hint of where this 'study' was performed. In just the FACTS...."

---

By M.J. Dicere  
09/22/2010

Me too! Reference please.

---

By max mass  
09/22/2010

Reference please!

---

By bhupen K  
09/21/2010

I would also like the link to the material reference in this commentary.

Long term forecast are always unreliable and because no one can accurately predict the future, they are just best guess

Nothing can be inferred from this commentary. Predicting the future is always an imperfect science and no one should e

However the important thing about planning is that we have to start somewhere and hence we must have some forecast point and we adjust from there. Hence the forecast.

---

By D Ferman  
From KS, 09/21/2010

Sounds somewhat like Gideon Rachman (and Professor Niall Ferguson, neither exactly young) in the Financial Times, FT on Sept. 6, 2010.

---

By George McKee  
From Cypress, TX, 09/21/2010

Testing predictions against reality has been a fundamental principle of science for 400 years. It's about time that economic philosophical blinders and begins to face its actual skill at dealing with the real world, however poor that skill might be. need to make this review an annual exercise, updating it with the latest versions of each model.

---

By James Wick

From Martin, TN, 09/21/2010

Have my own forecast method for the econ., trends in fruit tree sales. In the mid 1860's there was a surge in fruit tree Depression) this repeated in early 1920 (10 years prior to Great Depression) and wholesale producers sold out of stock rocketed about 5 years ago.... forecast, we are at least 4 years away from any major improvement and likely to worsen

---

By Ken Schulz  
From Bethel, CT, 09/21/2010

Another listener who would like a reference to the study to which Prof. Wolfers refers...

---

By Jonathan Lovelace  
From Milan, MI, 09/21/2010

The thing about meteorology is that \*short-range\* weather forecasting is actually quite accurate. It's the long-range for what you'd expect from a basic understanding of statistics. But there's another difference between short-range weather models and economic forecasting: daily weather forecasts are based almost entirely on actual data, whereas climatic assumptions, often without regard to whether those assumptions bear any resemblance to reality, especially in academ

---

By J.R. Gaines  
09/21/2010

Can you give me a link to the research being reported? I would like to read the full text.

Thanks,

J.R.

---

**Post a Comment:** Please be civil, brief and relevant.

Email addresses are never displayed, but they are required to confirm your comments. All comments are moderated. We post comments on this site and to read them on the air if they are extra-interesting. Please read the [Comment Guidelines](#) before posting.

\* indicates required field

First Name *	<input type="text"/>
Last Name *	<input type="text"/>
E-mail *	<input type="text"/>
City	<input type="text"/>
State	<input type="text" value="Choose State"/>

Comments \*

May we contact you about future stories? \*

No

Submit

You must be 13 or over to submit information to American Public Media. The information entered into this form will not be sold to a third party. For more information see [Terms and Conditions](#) and [Privacy Policy](#).

© 2010 | [Terms and Conditions](#) | [Privacy Policy](#)

#### PROGRAMS

[American RadioWorks](#)  
[American Routes](#)  
[Being](#)  
[Composers Datebook](#)  
[Marketplace](#)  
[Marketplace Money](#)

[Marketplace Morning Report](#)  
[Marketplace Tech Report](#)  
[Performance Today](#)  
[Pipedreams](#)  
[A Prairie Home Companion](#)

[Saint Paul Sunday](#)  
[The Splendid Table](#)  
[The Story](#)  
[SymphonyCast](#)  
[The Writer's Almanac](#)  
[More...](#)

#### SUPPORT AMERICAN PUBLIC MEDIA

American Public Media's online services are supported by users like you. [Contribute now...](#)