

Mass Media Coverage Professor J. Scott Armstrong

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Symposium on Forecasting by Kevin Phillips

The mall brought an extraordinary document the other day: an invitation from the International Institute of Forecasters to attend (for a mere \$520) their third International Symposium on Forecasting to be held June 5-8 in Philadelphia,

With 10 keynote speakers, eight panels, and 450 presentations, it promises to be quite an occasion: Rarely does one get the chance to hear so many who have been so wrong so recently about so much.

Ironically, the event is being cosponsored by the University of Pennsylvania's Wharton School of Finance, and the name on the cover of the solicitation material is that of well-regarded Wharton School Professor J. Scott Armstrong. I say "ironically" because the March issue of *Inquiry* magazine, containing a fascinating article on the woeful record of economic forecasters in the last few years, happens to cite a study of forecasters results by this same J. Scott Armstrong which offers the following debunking: "Expertise beyond a minimal level in the subject being forecast is of almost no value The implication is obvious and clear-cut: Do not hire the best expert you can – or even close to the best. Hire the cheapest expert."

A sage piece of advice, probably, One is tempted to wonder whether the same moral should apply to international forecasting symposia: Don't attend the best, attend the cheapest – or better yet stay home and take in a good movie.

However, for those disposed to take the Third Annual International Symposium of Forecasting and such events seriously, *Inquiry* magazine's article by California economist Thomas Hazlett titled "Playing with Numbers" is must reading. In the course of his discourse, Hazlett chronicles a string of recent forecaster fumbles that explode the pretenses of the economics profession and econometric models alike:

Item: Back in 1982, the Washington Post reported that "the consensus forecast at the start of a quarter has been wrong five out of the last

seven times about whether GNP would go up or down during the following three months."

Item: According to Hazlett, the 1974-75 recession was not forecast by 31 of the 32 major forecasting models.

Item: Over the last 14 years, the Office of Management and Budget estimate of the federal budget deficit has been within 25 percent of the actual deficit only three times. Four times OMB was far enough off to be wrong by between 44 percent and 141 percent.

Item: "The most respected predictors in California, the UCLA Business Forecast Project, made the wager that Proposition 13 (in 1978) would plunge that state into a depression of 1930s proportions, with 452,000 added to the jobless the first year and 1.2 million unemployed in three ... The actual result? A net gain of 1 million new California jobs over the three years beginning with 13's passage."

The ultimate irony is that the American people are often better forecasters than the economists and econometric models. Preliminary findings of a study funded by the National Science Foundation found that since World War II, surveys of the opinions of ordinary Americans have outperformed the experts to forecasting the inflation rate.

Moreover, as Hazlett pointed out with respect to the first professional fumble catalogued above, "a good prediction would be that seven flips of a nickel would have provided better forecasts." Yet as he observes, there remains a strong reverence in the business community and elsewhere for "guesses printed on magic tape. The semi-conductor is today's holy water, Fortran our Latin, the forecaster our Wizard of Oz." Which, presumably, helps explain why there is an International Institute of Forecasters and why some serious people will be paying \$520 come June to experience the dubious delights of Philadelphia and the even more dubious wisdom of the Third International Symposium on Forecasting.
