

## Mass Media Coverage Professor J. Scott Armstrong

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### At Symposium, Confessions of Economic Forecasters by Brian P. Sullivan

In a nearly empty conference room in Philadelphia yesterday, a Soviet economist was approached by an American economist.

"Let me give you a bit of help," said Herman O. Stekler, an economist with the College of Armed Forces in Washington. "If you watch the index of leading series [economic indicators], you'll never miss an economic turn," he said with an air of authority.

When the Soviet did not respond, Stekler raised his hand and smiled, "Scout's honor."

Aleksy Yermilov, an economist with the Siberian branch of the Soviet Academy of Sciences, was respectful but firm. Having reviewed the dismal performance of American economic forecasters in 1982, he was convinced that forecasters were not yet capable of predicting a major turning the economy.

"It might work this time, or another time, but no indicator is perfect," Yermilov said. "We don't have one technique much better than another. We just use all techniques together," he said, adding that, especially in light of 1982, all techniques were flawed.

Yermilov had just finished presenting a paper to the International Symposium on Forecasting, being held here this week, that attempted to show that forecasters "have a great record when economic times are smooth," but are far less accurate at predicting dramatic changes in economic direction.

The conference, sponsored by the International Institute of Forecasters in collaboration with the Wharton School at the University of Pennsylvania, has attracted 1,200 forecasters from around the world. Sessions were to be held through tomorrow at the Franklin Plaza Hotel.

Yermilov's research showed that the margin of error for U.S. forecasters tripled last year for nearly all of the 32 prominent, or what he calls "blue chip," forecasters, when compared with 1981. The margin of error was about seven times higher than in 1977.

"The doomsday for all forecasters came in 1982," he wrote, because the failure to predict such a dramatic downturn called into question the validity of forecasting accuracy.

"But the numbers were there," pointing to the economic downturn, said Stephen K. McNees, a senior staff

economist with the Council of Economic Advisers and vice president and economist with the Federal Reserve Bank of Boston.

McNees noted that monetary indicators, along with Stekler's favorite leading indicators, both had predicted the 1982 recession.

But if the economic indicators were so right, why had forecasters been so wrong?

"Well, some of us were saying it. -but not too loudly," McNees said. "I was predicting it," Stekler boasted. Then he added meekly, "But I don't write my predictions down." As they stood alone in the room, arguing their points firmly but politely, the three economists were fulfilling one of the most important goals of the symposium.

According to J. Scott Armstrong, associate professor of marketing at the Wharton School and chairman of the meeting, much of the learning at the symposium would come at chance meetings in the hallway, or 'at lunch, or to impromptu discussions after the scores of scheduled presentations.

"Studies show that people don't really read outside of their own area of expertise," Armstrong said. "This is a chance for a lot of people in different fields to pick up new ideas."

As Yermilov listened to Stekler and McNees explain what had gone wrong with last year's forecasts, his face changed from combative to attentive, like a student seeking another piece of the American economic puzzle that would be useful when he returned to Siberia.

"We're prisoners' of our own perceptions," Stekler admitted. "We were sold a bill of goods (by the U.S. government and other economists that 1980 was bad so 1981 and 1982 had to be better as the economy recovered. We bought it."

Yermilov nodded that he understood such things all too clearly. Forecasts are almost always more positive than they should be, he said. "And we don't want to be too far from the consensus," McNees added. "Even if your numbers are very different from everyone else's, the tendency is to just put yourself on the right [correct] side of the consensus, so even if you are wrong, you can at least say you were better than everyone else."

Having explained why the Americans failed in forecasting the American economy, McNees asked how Soviet economists had fared at the same task.

“Oh, we predicted about the same things” for the U.S. economy, Yermilov answered matter-of-factly. The Soviets used the same methods and data as Americans, he explained later, so they arrived at the same, wrong, conclusion.

Later, McNees confessed that the Soviet economist was one of the most knowledgeable students of American forecasting he had ever met.

“And when he admitted that they made the same mistakes we did, then I knew he was all right,” McNees said. “We’re all in the same boat on this stuff.”

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