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The “Seersucker Theory” of Economic Forecasting
by Sylvia Porter

How expert have the expert economists been in their forecasts in the last couple of years? Terrible, downright awful.

Why, then, do government policymakers, corporations big and small, individuals – all of us, in fact – continue to listen and to repeat their predictions? Because there’s no place else to go. You might be far more accurate in your forecasts but you wouldn’t trust your own judgment. You want the “experts.” And they wiggle and rewiggle, adjust and readjust – and we print and otherwise report what they say while you accept their wiggles without even a shrug.

What is economic forecasting, anyway? Once I thought it was an art; then I began to accept it as a profession. Now I’m moving into the position of the Wharton School’s Professor J. Scott Armstrong. Writing in a recent issue of *Inc.*, Armstrong says that despite all the evidence that vast expertise doesn’t produce better forecasts, businessmen and others continue to pay experts as if they were seers.

Thus, Armstrong produces “The Seer Sucker Theory,” which holds that “no matter how much evidence exists that seers do not exist, suckers will pay for the seers.” Carnegie-Mellon University’s Alan Meltzer tops that with the observation that under “the Wall Street method of forecasting, they’ve missed the main developments in economics for 25 years.”

Why do forecasters fail when they’re trained so carefully and so heavily to be experts? Because, Armstrong suggests, “people tend to avoid information that refutes their preconceptions.” (Reagan administration spokesmen: Note!)

For instance, in an experiment, P.C. Wason, a psychologist, presented people with a three-number sequence: 2, 4, 6.

He told them that this sequence had been generated by a rule in his head and asked them to figure out the rule by producing additional three-number sequences (8, 10, 12). When confident, they were to write the rule down. Wason’s rule

was simply that the second number be larger than the first and the third be larger than the second.

Only 25 percent of the subjects discovered the correct rule. The majority selected other hypotheses – guessing, for instance, that the rule was “Add two to each successive number.” Then they looked for evidence to confirm their pet hypotheses.

The story gets worse. Subjects who had given wrong answers were allowed to try again by proposing other sets of numbers. About half continued to seek confirmation for the rule they had been told was wrong.

Can experts’ forecasts be improved? Armstrong says the prospects are not good but he suggests three ways to get “better forecasts.”

First, the experts should be asked explicitly to list the reasons their forecasts may be wrong. Second, they should be asked to list alternative possibilities that cover the range of potential outcomes. Third, averaging the predictions of several cheap experts is probably more reliable than accepting the forecasts of a single expensive expert.

“But often,” Armstrong concludes, “the best course is not to try to improve experts’ forecasts but to dispense with them entirely.”

What forecasts are we relying on now? Murray Weidenbaum, President Reagan’s chief economic adviser, suggests 1982 “will come in like a lamb and roar out like a lion.” Translated, that means a flat first half of the year, high unemployment, bankruptcies, etc., then a pickup in July when the tax cut comes in and a last half of spirited growth.

This appears to be the “standard forecast” (where the majority opinion may be found, which makes the forecast suspect right there).

Continued softness to sluggishness into spring; in the general economy, a lower inflation rate backed up by moderate wage contracts, high but not rising interest rates – then a slow, spotty economic rise in the second half, when the election is on. Suckers, hear the seers.
