True confessions from economists refreshing sign

DON McGILLIVRAY
Southam News

OTTAWA

A BUNCH of economists met at Anaheim, Calif., recently and admitted they didn't know what caused the economic slump or how long it would last.

Such a confession is not only unusual but a good start toward the kind of fresh thinking the situation requires.

The fear of the Lord is the beginning of wisdom, according to the Bible. So is a confession of ignorance. Few economists, however, have been humble enough to adopt the position of Sir Isaac Newton, the pioneering scientist.

"I do not know what I seem to the world," Newton is reported to have said, "but as to myself, I seem to have been only like a boy playing on the seashore and diverting myself in now and then, finding a smoother pebble or a prettier shell than ordinary, whilst the great ocean of truth lay all undiscovered before me."

The recession in the American economy is supposed to have been finished since March 1991. But Robert Hall, the Stanford University economist who heads the committee that formally sets such economic dates, admitted that "my over-all assessment is that you cannot explain this one."

Speaking to the annual meeting of the American Economic Association, Hall ran through eight traditional explanations of recession, from high interest rates to overstocked stores ... and rejected every one.

Instead, it seemed generally believed by the 200 economists at the meeting that something strange happened to consumers in 1990.

They suddenly stopped buying. They lost confidence in the economy. At first it was blamed on fear of oil-price increases triggered by the Gulf War. But the danger of oil-price hikes and the war itself passed without consumers regaining confidence.

They "got scared and stayed scared," according to Oliver Blanchard of the Massachusetts Institute of Technology.

The same thing happened in Canada but the effects were worse than in the U.S. because the federal government chose precisely the wrong moment to hit consumer confidence with the new goods and services tax.

The difference between Canada and the U.S. was dramatically illustrated last week when both countries released their latest unemployment numbers.

The U.S. reported that 7.3 per cent of its work force was out of a job in December. That produced some gloomy headlines because it was no better than in November.

Canada reported that 11.5 per cent of its labor force was unemployed in December. Most of the headlines hailed this because it was down from 11.8 per cent in November.

In other words, 7.3 per cent unemployment is bad news in the U.S. but 11.5 per cent is good news in Canada.

That's partly because the Canadian economy just doesn't produce jobs, as does the U.S. economy. Their slump level of 7.3 per cent is about as good as it gets in Canada. We pared unemployment down to about seven per cent in March 1990, just before the slump began.

But instead of admitting puzzlement at this gap, the economics profession in Canada seems inclined to blame the unemployed for not looking harder for jobs. Our economists are sticking to the traditional explanations, including the idea that unemployment insurance has made Canadian workers lazy.

It would be a good idea for Canadian economists to dig deeper into the reasons their own forecasts fail to come true.

Take job creation in 1992, for example.

Finance Minister Don Mazankowski was relying on forecasts by his own department and private sector economists when he announced in his February budget that "employment creation in the range of 300,000 jobs per year should be achieved in 1992 and 1993."

How did it work out? According to last week's numbers from Statistics Canada, there were just 21,000 more jobs in Canada in December than a year earlier. Mazankowski missed his target of 300,000 by 279,000 jobs.

No wonder people lose faith in economic forecasts. No wonder they do what they can to get out of debt and prepare for continued hard times.

We need an economics less interested in justifying its own fancy theories and more interested in the needs of real people.