



## DO YOU UNDERSTAND ECONOMESE?

A few weeks ago I received a letter from an Idaho reader of *Agribusiness Management*. This letter contained a compliment that is always highly cherished by an economist such as myself. In fact, the degree to which this compliment is esteemed is exceeded only by the rarity in which such a compliment is received. This reader stated that unlike most of the jibberish published by economists, he found this brief publication understandable. He went on to ask why many professional economists seemed to “. . . adopt the language of their fraternity, replete with graphs, formulas, etc.,” resulting in a publication, “. . . which is not very intelligible to the people who need the information most?” The concern expressed by this reader is not unusual. In fact, I suspect his view about the intelligibility of most economic publications is representative of those held by a large proportion of persons in the agribusiness industry. The problem is simple. Most agribusiness managers are unable to understand “Economese” -- the language of professional economists.

## The Need For Understanding

If economists are so obscure in expressing their thoughts, why is it necessary for an agribusiness manager to even bother to understand them? You are a businessman. To perform your job properly, make the correct decisions, and maintain control over a prosperous enterprise, you must understand the economy within which your business operates. Not only must you understand the economy as it currently exists, but you must also have some knowledge about what the economy is likely to be next year or even five years from now. For example, how can you make an intelligent decision about a loan unless you know what the interest rate is now and is likely to be at a later date? How can you decide whether or not the loan is necessary until you have some appreciation of the future supply and demand for your product? What factors should you consider when deciding what level of inventory you will carry into 1970? In order to answer these questions and others like them, you need economic information.

## The Sources of Economic Information

The need for business managers to have available to them vast amounts of economic information has given rise to a special breed of economist -- the so-called economic forecaster. The forecaster is in the business of making and distributing economic information. They now inhabit all parts of our economy -- in business, in government, and in our universities. As each New Year approaches, the forecaster's workload increases. It seems everyone wants to know whether the New Year will bring inflation, recession, higher incomes, or reduced corporate profits.

If one really tries, he can obtain an abundance of economic information at a relatively low cost. In fact, some economic forecasts are free. For example, the Federal Reserve Systems publishes a running commentary on the status of our economy. Larger commercial banks also provide monthly reports on the economy, particularly as they apply to the nation's monetary and fiscal position.

There also exists a proliferation of so-called subscription services. These agencies provide periodic confidential reports in the form of newsletters or restricted press releases to their subscribers for a price.

Our federal and state governments are probably the largest single employer of economic soothsayers. Much of the information generated by these agencies is eventually released to the public. As you might expect, however, most of this information is heavily screened before it is published. As a result, government economists while they may be well trained and have access to large supplies of economic statistics, sometimes tend to be overly cautious in their development of economic information. It is not unusual, when reading their reports, to discover that they seem to be self-fulfilling and thereby inadequate for comprehensive use.

The inadequacy of government reports alone thereby being recognized, many business managers are now relying more heavily on independent forecasters. This search for “independent economic forecasters” has brought about a dramatic increase in their numbers. Newspapers have traditionally been looked upon as a relatively unhampered and freewheeling source of

information. It is not surprising, therefore, that newspapermen are now playing the role of economic crystal-ball gazers. Newspapermen, for example, who a few years ago could not distinguish between Gross National Product and Personal Disposable Income are now filling columns and columns with super-fluent discourse on the present and future state of our nation's economic complex. One newspaper-reporter-turned-economic columnist recently admitted, "It's the age of specialization. You must be an expert in something in order to keep your job. So I decided to be an expert in economics."

The sources of economic information abound. Unfortunately, these sources may be unreliable, costly, or lacking, in sound judgment. So where does a manager go to obtain accurate and understandable information? For large American corporations this creates no big problem. They simply hire their own professional economists. Being well trained, highly motivated, and adequately paid, it is the job of the industry economist to fight his way through the volume of reports, newspapers, and other publications, throwing out that which is garbage and retaining that information with some degree of relevancy. He then prepares his own "in-house report" and sends it in condensed form to the manager for his speedy appraisal and easy understanding.

How about the small to medium-sized agribusiness firm? How does the manager obtain this necessary economic information? Does he use his own time to sift through the daily supply of advice and forecasts found in the mail and general news media? If he does succeed in compiling a running tabulation of all the major economic indicators, he will ultimately be faced with the most critical of all questions, "What does it all mean?"

### **What Does It All Mean?**

What does it all mean? This must be the question in the minds of most agribusiness managers as they read publications written by economists. Many people are fond of creating an analogy between reading an economic forecast and a weather forecast. In fact, a professional economist sometimes acts like a professional meteorologist. The weatherman gives you a 40 percent chance of precipitation and a 40 percent chance of sunshine. The remaining 20 percent is anyone's guess and the forecaster is right either way. But there is one substantial difference between meteorological reports and an economic forecast; most people are able to understand the former. Most readers know the meaning of precipitation, relative humidity, and air temperature. But how many readers know the difference between cost-push and demand-pull

inflation, or who understands what is meant by the coefficient of acceleration, rediscount rate, Keynesian multiplier, or Gresham's law?

The meteorologist is telling you about the heavens, but unless you understand Economese, you'll find yourself asking, "What in heaven is the economist talking about?" A friend once commented, "I know that I understand the principles of economics. But unfortunately, it's the economists who always manage to keep me confused." Even a basic knowledge of economics, therefore, does not guarantee your correct interpretation of economic forecasts.

### **What Can Be Done?**

Assuming that you have the desire to gain a better understanding of the economic factors affecting your business now and in the future, what can be done to improve your interpretation of economic publications? There are several answers to this question.

The first basic principle to follow is to always check the source of the economic information, which you are reading. You should take a good hard look at the background, training, and affiliation of the economist doing the forecasting. If his background and training depict that of a coat-rack economist, you may wish to remain somewhat dubious of his statements. If the economist is employed by a labor union, for example, he might attempt to prove that corporate profits are high, labor productivity is up, and that unless the laborer receives a pay raise the economy will stagnate. At the same time, an industry economist may be claiming that the economic slowdown is due to excessive labor costs and heavy corporate taxes. Both will be able to cite volumes of charts and figures to prove their point.

So you should begin to place a greater reliance on the words of the so-called objective economist, many of who are associated with our nation's universities. But here you run into the real language barrier because ivory tower economists are particularly well known for their use of Economese. In fact, I suspect that Economese was invented by academic economists as the most effective means of impressing their professional colleagues and confusing the laymen. After all, one of the safest positions in academia is that held by a person who is doing something, which no one else understands, and thereby, never questions.

Again, large American corporations have solved this problem by employing semi-economists -- people not so far removed from reality as to be unable to communicate with the laity but who, at the same time, are able to understand the language of the full-blown

academic economists. But for those agribusiness managers who must interpret Economese on their own, a few helpful suggestions are available.

### **Some Helpful Suggestions**

Beware of the conditional phrases. This is the first suggestion one might follow when reading economic literature. Economists are also human beings. As such, they have a tendency to use more conditional phrases as they become more uncertain about what they are saying. For example, consider the statement, “Some of the current economic indicators suggest a temporary slowdown in industrial production. This may be in response to recently enacted credit restrictions and relatively high labor costs.” Notice the use of the words, “some, suggest, temporary, may, and relatively.” These are all conditional phrases, which, if not recognized by the reader, create a feeling of certainty that does not exist. Ask yourself: How many is some? How long is temporary? Relative to what? By asking such questions, you are likely to conclude that the economist making such a statement is really protecting himself from that which he is unsure of. For example, the use of the word “temporary” lets the economist off the hook in the event industrial production increases after he has published his statement. All economists, myself included, have a tendency to hedge their statements whenever possible. You will soon discover that being an expert on economics, insofar as your use of this information is concerned, isn’t so much a question of economics as semantics. Take a good, hard look at the economist’s advice and contemplate every word that he is saying. If it turns out that he isn’t saying anything, throw the publication in the garbage pail, where it undoubtedly belongs. On the other hand, if you are able to salvage but one pearl of wisdom from a report, it was probably worth your time to read it.

Check the verbosity index. This is the second suggestion you should follow when reading an economic publication. The verbosity index is equal to the number of letters in a sentence’s longest word, multiplied by the number of words in that sentence, and divided by the square root of the smallest number of words which could have been used to communicate the same message. In short, the verbosity index is an indication of an economist’s passion for using unnecessarily large words and long sentences to say something very simple. You are likely (there goes another conditional phrase) to discover a high correlation between general economic uncertainty and an economist’s ability to pontificate (watch those large words) about it. Put yet another way, the more unsure an economist is about what he is saying, the wiser he will try to sound. If you run into an awe-inspiring

volume of economic reports, this may mean only one thing: Nobody really knows what is happening! The economist who knows what he is talking about will make his statements clear and concise.

One final suggestion remains concerning how you might improve your ability to understand the writings of economists. When reading an economic report, consider those major factors, which cause our economy to turn up or down. There are several such factors, but here are the major ones: government spending, the money supply, consumer spending, business investment, and rate of production.

The government, along with making economic forecasts, publishes a wealth of valid economic indicators; particularly those relating to its own expenditures. Under conditions of full or near-full employment, increased spending by governmental agencies will generally have an inflationary effect on our economy; decreased spending will have the opposite effect. The Treasury, Federal Reserve System, Department of Commerce, Bureau of the Budget, and the Department of Labor provide information on the other factors listed above. If the money supply is shrinking, this will have a bearish impact on the economy. Information on industrial production (which tells you what other businesses are doing), retail sales (which help tell you the mood of the consumer), business investment (which tells you what others expect to happen) employment (if it’s high, more people will have more money to spend), hours worked, earnings, and personal income (which tell you about demand and buying power potential) are all helpful in making your own interpretation of economic reports.

Prices of basic commodities are another indication of the state of the economy. Rising commodity prices are usually a result of increased purchases of raw materials. This, in turn, can be interpreted to mean that the buyers of these materials intend to produce more finished products in response to an anticipated growing consumer demand. However, this is a tricky indicator. A rise in commodity prices does not always mean increased consumer demand; it may be a result of businessmen stockpiling supplies in anticipation of a future shortage due to labor problems or other factors.

It boils down to this: What your firm should be doing depends on what everyone else is doing or planning to do. If everyone else plans to buy more, produce more, and spend more, the economy will accelerate and you should be prepared for it. If the indicators are showing opposite tendencies, be prepared for a general economic slowdown.

If the indicators contradict themselves, as happens to be the case at the present time, one might assume a wait-and-see attitude. If you wish, you may begin to weigh the plus and minus factors in an attempt to outguess the economy (and thousands of economists), but this is a risky business. Regardless of what conclusion you reach, I'm sure that you will be able to find an economist to agree with you.

### **Disagreement; A Great Asset**

It has been said, "If you really want to know what is happening in American business, ask an economist, but never ask two!" The implication of this statement is clear: pick any two economists and they will disagree on almost every topic. Economists are often criticized because we disagree with each other so readily. This disagreement is interpreted as a professional weakness illustrative of our own inadequacies. In fact, this is far from the truth.

Economics is not an exact science. As a result, economists must deal with variables, which are uncontrollable and impossible to anticipate.

Disagreement among ourselves has proven to be the most efficient means of purging the unsupportable premises from our profession. Just as a chemist would distill water in an attempt to remove its impurities, an economist actively seeks professional debate in an attempt to test the validity of his analyses or those of others. Disagreement, therefore, is not an economist's weakness, but a great asset.

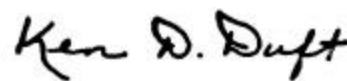
When reading publications written by different economists, don't become disillusioned when you find them interpreting economic phenomena in completely opposite manners. Read both arguments carefully and attempt to appreciate both authors' views. This procedure is likely to result in your considering factors which otherwise would have gone unnoticed. In the final analysis, it is your responsibility to decide which side of the debate is most convincing (and accurate) and act accordingly.

### **Summary**

As the manager of an agricultural business, you must keep informed on the status of general economic conditions, particularly those which directly affect the future of your firm. To stay informed on these matters, you must read numerous types of economic literature. Many agribusiness managers fail in this endeavor because they do not understand Economese -- the language of professional economists.

This paper suggests several ways that an agribusiness manager can improve his ability to understand economic literature. They include:

- (1) always check the source of the economic information,
- (2) rely more heavily on the talents of the independent economists,
- (3) beware of the excessive use of conditional phrases and don't become confused by semantics,
- (4) don't be frightened or overly impressed by the economist's use of large words or complex sentences,
- (5) develop a basic understanding of the relationship between major economic variables before attempting to read economic publications, and
- (6) don't become disillusioned by economists' tendency to disagree with each other.



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