

Keynote address at the BER's 80th anniversary

Friends of the BER.

I recently spoke at the Stellenbosch Business School's 60th opening of their academic year and reminded the audience that I also spoke at their 50th anniversary. There is something disconcerting about finding oneself on the programme a decade later - and that is also true this evening, where I say a few words to celebrate the 80th anniversary of the BER, a privilege I also had at your 70th anniversary.

1. But there is something very encouraging to reflect on such an opportunity to speak at the bookends of a decade. Encouraging, because it testifies to a lasting relationship with an institution like the BER that you value and that makes your life and work more interesting. I certainly love my work with the BER and can only thank you for creating an opportunity for me to remain involved after so many years.
2. The Bureau for Economic Research has also evolved over these ten years, as it has done continuously over 80 years. The BER has to keep evolving because we are students of an evolving economy and that has been the central justification for our discipline since the industrial revolution.
3. The industrial market economy is the most important development in the history of humankind, but unlike traditional or hierarchical societies it is a lot harder to explain what's going on, and much harder still, to predict what might happen. Indeed the great economist Hayek used the idea of a spontaneous order to describe the remarkable order and the remarkably progressive social impact that it brought.
4. This need to study this phenomenon, and for a new discipline to do so, was clear the moment our kind of industrialised market economy emerged in the UK in the 18th century. The renowned Dr Samuel Johnson said at the time: **"The is nothing which requires more to be illustrated by philosophy than trade does"**. And our dear master, Adam Smith, stepped up just at that time to supply one of the most important treatments of our subject as a discipline, seeing the economy not in bits and pieces, but as a whole, as a system, as an evolving system.
5. But this world is a remarkably difficult place to analyse: it is highly sensitive to contingent events, such as whether Russian Presidents decide to dismember neighbouring countries, and these events can have large and complex spillover effects. Or as Paul Volcker, the former governor of the Federal Reserve Board summarised the causes of the business cycle as: "greed, fear and hubris".
6. The future is pretty open, and as we forecast the future we are trying to anticipate the behaviour of people who will get to decide themselves how they will behave as the circumstances unfold. People can surprise us and they often do. That is not to say that that anything can happen though.

7. One of our other masters, Karl Marx, wrote in the 18th Brumaire of Louis Bonaparte, "Men [and women] make their own history, but they do not make it as they please; they do not make it under self-selected circumstances, but under circumstances existing already, given and transmitted from the past. The tradition of all the dead generations weighs like a nightmare on the brains of the living."
8. "We do not make it as we please" means that there are limits which make certain outcomes more likely than others. These limits are both technical - such as the necessary connection between current account deficits and capital inflows - and more subtle, such as the connection between marginal tax rates and spending behaviour. It is in mapping these boundaries of the likely futures that economics finds its social value.
9. The Bureau for Economic Research at Stellenbosch University has added enormous value over eight decades (as the oldest research institute at Stellenbosch University) by mapping the boundaries of the likely futures of this economy.

I have observed 4 distinct contributions for the BER over the years:

10. The rigorous collection, transformation and interpretation of a large amount for primary data about our economy;
11. Second, the interpretation of this and other data with the aid of economic model-based thinking at the BER. I cannot overemphasise how important I regard this disciplined model-based thinking. Alan Blinder put it like this a few years ago:
12. "I often put the choice this way: You can get your information about the economy from admittedly fallible statistical relationships, or you can ask your uncle. I, for one, have never hesitated over this choice. But I fear there may be altogether too much uncle-asking in government circles, and in central bank circles in particular."
13. The third contribution for the BER as I see it is to give advice, to be a trusted advisor based on its outstanding reputation for independence and rigorous thinking, and increasingly for its dedicated research projects.
14. The final role I see for the BER is to train economists. There is more than one way to be an economist - we are not a guild and allow many routes to the title. The one type is like the Nobel Laurette, Professor Sir Jim Mirlees who taught me microeconomics in Cambridge. He was astonishing, with his impressive array of mathematical skills on the board, but I did not learn much about the economy from him. Another type of economist knows that R350 billion is about 5% of GDP in South Africa and has an intense interest in the way the minister of finance is trying to stabilise the government's alarming debt stock.
15. This sort of economics is not easily learnt on your own, or from books. It is like a pupil-ship to work with experienced economists and to become what I call "fit" in your economic thinking. The BER has provided this kind of pupilship for many economists of a number of years and it is a tremendous and lasting service to our discipline. This is what we used to do at what I called my Thursday morning economics gym at the BER.
16. Let me pause for a moment with the last point, the pupil ship for young economists. That should tell you why it is so appropriate that the BER has been located at a university these last 80 years.

17. There are additional reasons why we are delighted to have the Bureau in the Faculty and the University, and why the Bureau is a good fit within the faculty. The Bureau's role as a collector and analyst of primary data about the economy and about the business sector is the kind of public good that competitive markets will tend to under-provide. Stellenbosch is a public university and the Bureau's affiliation here has helped to convince funders that they were supporting a legitimate public good when they support the BER. This was also a clever voluntary solution, in the tradition of the Nobel Laureate Ronald Coase's thought, for a problem that might appear, at first glance, to require a coercive solution.
18. The central role of economic and econometric models at the BER is another natural fit with a university where the department of economics contributes research and trains students in the use of these models. I have emphasised how important the rigorous model-based thinking at the BER is in my estimation. If you recall Alan Blinder's plea not to rely on uncle-asking, then remember that the BER is not your uncle.
19. Instead, the BER has gained the reputation for precisely the kind of responsible model-based thinking about our economy that makes it an invaluable source of information.
20. This is why government talks to the BER and why the SARB does too. This is why the IMF never fails to visit the BER and why the rating agencies come too. This is why the private sector listens when the BER talks and above all, this is why the university is so proud to be associated with the Bureau for Economic Research
21. I wish you a very happy birthday and I thank you for your outstanding work that has a tremendously positive social impact.

By Prof. Stan du Plessis, COO of Stellenbosch University

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