

How to Win a Nobel Prize in Economic Theory

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Today, boys and girls, we are going to have a lesson in Economic Theory. Even if you haven't studied Keynes, Hayek or *Economic Theory for Idiots* and you are generally clueless about how the economy works, do not feel discouraged. These are the exact qualifications needed to write a book on Economic Theory and/or win a Nobel Prize in Economics.

Before you race out and buy your white tie and tails for the Nobel Prize ceremony, we ought to, perhaps, cover some of the basics of Economic Theory so you have some thoughts to string together for your acceptance speech. We will begin with budget estimates. Think of a number between 1 and 10. Don't laugh; this is serious. Now multiply this number by one trillion and you have just calculated the USA National Debt, China's monthly surplus or the number of hits on Britney Spears website. As you can see you will get a handle on this Economic Theory business in no time at all.

Now take out your text books. The book we are using this semester is called

Whoops! Why Everyone Owes Everyone and No One Can Pay by Jonathon Aris. As Mr Aris explains Economic Theory involves very big numbers and it is difficult to get these numbers into your head without using a rubber mallet and/or a portable crane. Now here is your first exercise. How long do you think a million seconds is – just do a quick guess, don't go cross-eyed trying to work it out? Now how long is a billion seconds? The answers (You won't be within a stadium amplified Cooee of either) are just under 12 days and about 32 years. So now you have some idea where a trillion fits into the scheme of things. One trillion seconds would add up to 32,000 years!!!! If you spend \$1 everyday it will take you 32,000 years to spend \$1 trillion. It takes the government of the day about 3 minutes to spend it. I'm working on the premise here that, for now, the Australian Government of the day will be decided on a daily basis.

As the numbers involved are quite big and economists aren't that good at maths, Economic Theory demands that you think in Trillions and do sums using numbers between 1 and 10. The one exception to this rule applies when you are trying to win votes or seduce Independents and then you can talk in billions or even millions to make it sound as if you are spending a lot of money in the relevant electorates.

If you want to win that Nobel Prize in Economic Theory, however, you must move passed spreadsheet numbers and come up with some complicated computer model involving Collateral Debt Obligations or how to toast the perfect cheese sandwich. It doesn't matter which as no one will understand it. This model should, however, involve letters of the alphabet and a complicated mathematical equation that looks like a chicken has stood in a puddle of ink and then danced across the page. As Mr Aris explains, you will win the Nobel Prize if, basically, you can prove with your formula that nobody has to worry about paying back debt anymore so that they can sell this debt to someone else who isn't worried about paying it back either. In fact, you can win the Noble Prize and destroy Global Financial Systems in one hit. Neat, ugh? So now you understand the basic concepts of Economic Theory: big numbers and bad maths.

We will finish this lesson, boys and girls, by looking at what we have all learnt about Economic Theory following the Global Financial Crisis. What are they doing, for instance, down at Treasury? You might think that Treasury involves public servants shovelling our taxes into Scrooge McDuck money vats or bureaucrats crowing 'pieces of eight' as they run their hands through Pirates-of-the-Caribbean chests of loot but that is not the case, although I do understand they have some lovely desks. Treasury does all the fiddly calculations to do with the economy. Recently, Treasury calculated that the Coalitions budget savings estimates of \$11.5 billion were actually \$0.9 to \$4.5 billion. Is this good maths? Let's see. Treasury's calculations begin at, say, \$1 billion and go up to \$4.5 billion. That's a range of 450%. It's like telling a girl you measured her bust at 90cm up to 405cm! For a \$1 trillion-plus economy, a \$3.5 billion uncertainty range isn't so big, but then \$11.6 billion isn't either. Estimating budgets is not an exact science but everyone seems to think it is. Economic Theory rules! As I was saying, think of a number between 1 and 10 now multiply it by a billion. You can get a job in Treasury.