Nobel Prize Event Transcript

PRINCETON UNIVERSITY OFFICE OF COMMUNICATIONS:
Nobel Press Conference - Nobel Prize in economics
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Richardson Auditorium, Alexander Hall, Princeton University

SPEAKERS

Robert Durkee – Vice President and Secretary, Princeton University
Christopher Eisgruber – Provost, Princeton University
John Sexton – President, New York University
Christopher Sims – Nobel Prize winner; Professor of Economics and Banking, Princeton University
Thomas Sargent – Nobel Prize winner; Professor at New York University and Visiting Professor of Economics at Princeton University

PRESENTATION

R. Durkee

Well, thank you for that warm welcome. This is a wonderful afternoon and opportunity to conduct a press conference with the two newest Nobel laureates in economics. I’m Bob Durkee, the vice president and secretary here at Princeton University, and I’m going to take just a minute to explain what we’re going to do over the next hour or so.

Sitting up here on the stage, going from my far right, are Mark Watson, Professor of Economics and Public Affairs here at the University, who’s the acting chair of the Department of Economics; next to him, David
Dobkin, a member of our faculty and dean of the faculty here at Princeton University; John Sexton, president of New York University. Coming onto this side of the podium, Christopher Eisgruber who is the provost here at Princeton University. I want to say at this point that our president, Shirley Tilghman, is very sorry that she can’t be here this afternoon, but Chris will be here and will begin the press conference in just a moment.

The next two people will be introduced by Chris, the two new Nobel laureates. What we’re going to do is I’ll ask the provost to say some brief words of introduction. We’ll ask John Sexton if he would like to add to that a bit. We will then ask the two new Nobel laureates to say a few words.

And then, they will come back to these places, and we will take the questions from the press. We may have some questions coming in telephonically, and we will try to deal with them too, but when we get to the press part of this program, we’ll begin with the folks down in front. I’m not going to say anything more, except now ask the provost, Chris Eisgruber, if he will begin the press conference.

C. Eisgruber

It’s my great pleasure to be able to welcome all of you to this very happy occasion, and also, to extend my congratulations, along with those of
President Shirley Tilghman, to Professor Chris Sims and Professor Tom Sargent for having been honored with the 2011 Nobel Prize in Economics.

As you all know, the Nobel Prize recognizes achievements that are important, both because of their extraordinary scholarly distinction and because of their contributions to human society.

Chris and Tom, your accomplishments exemplify, in the best possible way, what Princeton University and New York University seek to do through their research missions. I know that I speak for my colleagues here on the platform, Dean of the Faculty David Dobkin and chair of the Department of Economics, Mark Watson, in saying that we feel very fortunate to have you here and that we are overjoyed to celebrate this moment with you. I realize that all of you are waiting to hear from our newest Nobel laureates, but I want to take a moment to say just a bit about their biographies, which will also, of course, now include the addition of Nobel laureate.

Christopher Sims is currently the Harold H. Helm Class of 1920 Professor of Economics and Banking at Princeton University. He joined our faculty in 1999 after previous appointments at Harvard, the University of Minnesota and Yale University. He earned his bachelor’s degree in
mathematics from Harvard in 1963 and his doctorate in economics, also from Harvard, in 1968.

Thomas Sargent is currently the Berkley Professor of Economics and Business at New York University and is a visiting professor for part of this academic year here at Princeton. He joined NYU’s faculty in 2002 after previous academic appointments at Stanford University, the University of Chicago, the University of Minnesota and the University of Pennsylvania. He earned his bachelor’s degree from the University of California at Berkeley in 1964, and like Chris Sims, his doctorate in economics from Harvard, also in 1968.

I know that you’re all waiting now to hear from Chris and Tom, but as Bob mentioned, we’re very fortunate to have with us here my good friend, the president of New York University, John Sexton. And John, I know that you would like to take this opportunity to say a few words of congratulations on behalf of NYU. John?

J. Sexton

Thank you, Chris. This is a great day for the world, and it’s a great day for our two universities. I want to add my voice to Chris’s in congratulating our two laureates.
I would add to this theme. There’s a way in which their work together; the fact that they teach a class this afternoon, here, together; the fact that their relationship goes back for so long a time, is yet another illustration of the fact that knowledge is anything but a zero-sum game, that great universities work together. Great minds work together for the advancement of human kind.

NYU is proud of our Tom Sargent, but we’re proud of the joint endeavors of the two laureates together and the joint endeavors of our universities. I’m proud of the fact that Chris Eisgruber not only is a friend of decades, but that I was the dean who gave him his first job. And I was very proud when Princeton made him the provost here. I consider it a gift from NYU to Princeton.

And I remember in 2002, a year into my time as president, when Tom Sargent joined our faculty, and I would just like to say this, if there were a Nobel laureate for simple mentorship and for sheer humanity, he might be winning those today as well. This is the complete package. Congratulations to both of our laureates and onward and upward together. Thank you.
R. Durkee

So, John, thank you for those words and for the gift of Chris Eisgruber.

And now, Chris Sims, can we ask you to go to the podium and say a few words?

C. Sims

I couldn’t be happier to be getting this prize and especially to be getting it with Tom, whom I’ve known a long time. I’m not so sure it’s right to say we have worked together. It’s more we have a series of continuing arguments, many of which are still going on, as I slowly persuade him of the error of his earlier positions.

But I also like to think of the award as representing an award for an approach to economics that insists on recognizing the uncertainties surrounding our theories and trying to deal formally with those uncertainties using the tools of statistics and, out of that, to develop ideas and insights and models that can improve real economic decision making. There are many, many people who’ve contributed to the growth of these areas of economics, many of them working now, both in academic departments and in central banks and governments around the world, and I hope they all feel that this award is in part to them.
Okay, so first, I thank my students for being here. I appreciate that. So, it’s wonderful to have this field recognized, and for me, it’s particularly heartwarming to share it with Chris.

So, this isn’t a solo operation, the kind of research we do, so we’re dependent on our colleagues and our students. And so, I’ve had wonderful co-authors. So, I’ve learned a lot from Chris. I actually have character by not getting sore at his criticisms and trying to take him seriously and changing things for the better.

I’ve had wonderful co-authors. Neil Wallace was one who took me when I didn’t know anything and told me that and told me to learn things, told me to start taking some classes at the University of Minnesota. Then, I had a wonderful student, Lars Hansen, who’s written a lot of papers with, and who’s taught me a lot and has made my work better and shared his work with me.

And then, I’d like to thank the universities, NYU, where I am now, but universities where I was in the past. Minnesota was a wonderful place, partly because Chris and Neil were there. And then, I had the good luck to be at Chicago and Stanford where I met people that changed my mind on things and met students who showed me new possibilities.
So, what’s this area about? So, my co-author and good friend, Tim Cogley, says this about statistics. He says, “We don’t know everything, but that doesn’t mean we know nothing.” And a kind of tradition that Chris and I work in is using a combination of statistics and models with more or less economics in it to say what we can about the world.

And we’re basically statistical historians. We comb the past in a disciplined way, past economic events for the most part, to give us clues about what will happen in the future if there’s some kind of stability. And we also work in the tradition where it takes a model to beat a model, and Chris and others have elevated what it means by a model; something that a mathematician or statistician would recognize.

So, we build models in which, along with many people at Princeton and NYU and other places, we build models where people’s expectations about what the government is going to do are really important in influencing events. And those expectations can’t be just arbitrary because they depend on partly on what the government’s going to do. And what the government’s going to do partly depends on those expectations. And building statistical models that incorporate that is a noble enterprise, and it’s all we have to understand and improve the world in economics.
R. Durkee  Okay, we’re going to open this to the press. For those who are watching this outside this room, would you wait until you have a microphone, and then, ask your question? Anyone want to start with the first question? Okay, this could be the shortest press conference on record. Nobody has a question. You have a question.

W. Brandimarte  Hi, Walter Brandimarte with Reuters. I wanted to ask you professors, if we have to take—if your work is about taking the expectations of what people think the government is going to do, I wanted to see your opinion about what the government has done so far in the United States to support the economy, if you think it has been appropriate. How can we actually support the economy, create jobs, those questions everybody are asking themselves?

C. Sims  I think part of the point of this prize, in the area that we work in, is that answers to questions like that require careful thinking, a lot of data analysis, and that the answers are not likely to be simple, so that asking Tom and me for answers off the top of our heads to these questions, you shouldn’t expect much from us. My own view is that what we ought to do is the kind of thing that Chairman Ben Bernanke has urged the U.S. government to do, make good long-run plans for resolving our budget
difficulties without imposing severe fiscal stringency in the short run and that accommodative monetary policy is a good idea.

These are not very original ideas. I think 80 percent of the economics profession would agree with this. The problem is to figure out how in the real world to get these things done.

T. Sargent  Yes. I don’t have much to add to that. Maybe I was hoping he was going to ask about Europe.

R. Durkee  I think one of the privileges of being a Nobel laureate is if you want to answer a question about Europe, you can do that.

T. Sargent  So, here’s a phrase that you hear, partly about language, you hear that U.S. fiscal policy is unsustainable. You hear that over and over again. You actually hear it from both parties.

And that can’t possibly be true because government budget constraints are going to make it sustainable. So, what they mean is that certain promises that people have made about taxes, entitlements, Medicare, Medicaid, those are incredible. They’re not going to fit together.
So, the U.S. fiscal policy is sustainable. It’s very uncertain. It’s uncertain because it’s not clear which of these incredible promises are going to be broken first. So, it’s just language, and it’s all just about a government—a budget constraint, and that’s something that’s in every theory. But just thinking in terms of the government budget constraint, and then, it takes you to the heart of the problem.

You notice it sort of takes you, “Well, what do you think’s going to happen? Do you think social security’s going to be cut, or do you think taxes and capital are going to be increased?” And what’s going to happen is going to depend partly on what you think is going to happen but also about what actual policy is.

R. Durkee Do you want to say something about Europe?

T. Sargent Maybe if somebody asks that, maybe.

R. Durkee Okay, someone has a microphone.

Journalist What about Europe?

R. Durkee Nicely done.
T. Sargent

Chris?

C. Sims

I wrote a paper quite a while ago called the *Precarious Fiscal Foundations of EMU*, much of which is relevant to discussion today. That paper was about the intertwining of fiscal and monetary policy, a theme on which both Tom and I have worked over the years and just trying to bring out the implications of the fact that the euro was founded with a central bank but with no unified fiscal authority capable of issuing bonds and imposing taxes on its own. And that made it extremely unusual and raised questions about what would happen when the need for fiscal monetary coordination arose, and it certainly has arisen.

My view is that if the euro is to survive, it will have to work out—the euro area will have to work out a way to share fiscal burdens and connect fiscal authority to the ECB and the role of lender of last resort. Right now, none of those connections are clear, and if those connections remain unclear or people try to go back to a system in which there is in fact no central fiscal backing for the ECB, I think the prospects for the euro are dim.

T. Sargent

So, I’m going to repeat the same theme, just give you an example. United States, at the founding of our republic after our second revolution, which
is the one that the constitution was written, so, here’s the initial conditions.

In the 1780s, the United States is a basket case. There are 13 sovereign governments. There are 13 states.

They have the ability to raise taxes and print money. We have 13. We have a very weak center. Does this remind you of anything? We have a very weak center that can print money, can’t raise taxes. It’s dependent on the individual states for contributions. They typically don’t make them.

The consequence; U.S. state, of the 13 states, they all have debt and the center has debt. It’s going like euro bonds. They’re going at deep discount. The government has no ability to—they’re going at $0.10 to $0.20 on a dollar. I’m getting this from a paper written by someone at NYU. So, what happens is that basically the, cut through a lot of details, the creditors of the government for various reasons, they take over, and they write a constitution.

But here’s another thing we can’t do; we can’t have a coherent trade policy. The British are discriminating us badly in trade. We have 13 different trade policies, and they’re playing one off against the other.
And then, the constitution of the United States does the following. It gives the federal government the monopoly to levy the one tax that really raises revenues, a tariff in those days. It gives the federal government a monopoly, think of what Chris was saying, a monopoly on the ability to have a trade policy. There’s a coordinated trade policy. States can’t impose import or export taxes.

And then, simultaneously, the federal government assumes all the debts of the state debts, and it raises tariffs. First thing Alexander Hamilton and George Washington did is they raised taxes, and they raised them enough they’re basically spending 85 percent of U.S. government revenues to service the bonds, and the bonds go from being deep discount to going at par. That’s how we were born, and we were born with a determined solution to the problem that Europe is facing now, and it was a comprehensive solution done in a certain order.

It was all done simultaneously through something—a process that looks like a miracle. The older you get, the more miraculous, and the more you watch Europe, the more miraculous that you will see. But in terms of—George Stigler said, “A word can ravage half a continent and raise no new issues in the economic theory.”
And like Chris said, there are no new issues in economic theory with Europe and the euro. And Alexander Hamilton kind of knew them. The difficult thing is the politics, and I can’t help you with that, but maybe someone else can.

R. Durkee

One of the journalists who’s following us on Facebook asks whether you can say anything about whether there are any particular impacts of your work on Latin American economies.

T. Sargent

Chris? Yes. So, I don’t know. So, I wrote a paper a long time ago about how to stop hyperinflations, and it was empirically based, little bit of theory, basically a theory Chris just talked about. It was about how to start and how to stop a hyperinflation.

And the way you start it is you get fiscal policy out of control, run sustained deficits, and then, you have a monetary authority that has to monetize government debt. And that will always work. And then, how do you stop hyperinflations, what I said in that paper, stop doing it.

And what’s true is if you look at Latin America in the 19—this isn’t high economic theory, and it’s not incredible data analysis. But if you actually look at Latin America from the 1970s and ‘80s where they had a bunch of
hyperinflations and then they stopped them, they stopped them using this old time religion. If you ask who stopped hyperinflation in Brazil, it was the poor people because inflation’s a tax mainly on poor people. And in Brazil, the coalition that stopped it was a coalition that was sensitive to that. So, that was a politics there but economics is what I just described.

C. Sims

Another Latin American policy issue, I don’t know that it had any impact on it, but the issue of dollarization, which was a popular policy suggestion a few years ago in Latin America. I commented at panel discussions and wrote some discussion papers that were never published about this issue, from the same kind of perspective on the interactions of fiscal and monetary policy that we’ve been talking about, in which I argued that the benefits of dollarization were perhaps being overplayed because people weren’t considering the impacts of dollarization on fiscal policy.

In fact, some of the most naïve interpretations seem to think that by dollarizing, the Latin American country could start borrowing at the same rate as the U.S. Treasury, which fairly simple economic analysis showed was very unlikely to be true. And I guess dollarization has become a less popular policy prescription in the last several years.

R. Durkee

Are there questions here? Okay, in the back.
J. Maxfield  
Hi, I’m Jen Maxfield from WABC-TV. Something perhaps a little less highbrowed, but could both of the professors please explain how you were informed that you had won the prize, in particular Professor Sims? I think there was an issue with the phone.

C. Sims  
Yes. This was all my wife Kathy’s fault. She’s sitting right over there. The phone was next to her, and it was 6:15 and dark. And so, the phone rang, and we mumbled to each other that it must be a wrong number. And she picked up the phone and fumbled with it and could not find the talk button in the dark.

So, the phone stopped ringing, and we decided probably was a wrong number and we’re going to go back to bed. But then, I said, “Wait a minute. The Nobel Prize would actually call at this time.” So, I checked using my Smartphone where the area code was, and the area code seemed to be from Texas, so we decided it was a crank call and we went back to bed. Then, they called, and Kathy said, “Well, if it is a prank, they’re doing a pretty good Swedish accent.”

R. Durkee  
Tom?
T. Sargent  Someone called me, and they said, “Do you know how to get ahold of Chris Sims?

R. Durkee  And that call came from Texas?

T. Sargent  I didn’t check.

R. Durkee  All right, is there another question over here? Down in front. Ruth, where are you?

Jason  Hi, I’m Jason … agency from China. First of all, I’d like to congratulate both of you, Professor Sims and Professor Sargent, for being awarded the Nobel Prize. My question is about China’s economy.

As you may have noted that China’s economy is slowing down while the inflation is very high. So, it seems that maybe the aggressive monetary policy right now is not a good choice for China’s economy. So, in your opinion, in your view, what is the better monetary policy or fiscal policy for China’s economy right now? Thank you.

C. Sims  I think a message of both Tom’s and my research is that the question of whether fiscal or monetary policy is better for reacting to the state of the
economy is not a well-posed question, that monetary policy always has fiscal implications and vice versa. And it’s dangerous to think that one of the two kinds of policies can by itself take care of an economic problem if the other policy is off on a different track. I don’t know enough about the Chinese economy to offer any very specific prescriptions for how they should deal with their current situation, I’m afraid.

R. Durkee  Okay. Another question. All right, I’m going to ask one then. I think both Princeton and NYU are very proud of the fact that not only have you been conducting your research at these two institutions, but you have been teaching at these two institutions. Can you say a little bit about—I know you, in fact, later this afternoon, you need to go off and teach. Can you say a little bit about what you’ve been teaching?

T. Sargent  Do you want to go first?

C. Sims  No.

T. Sargent  So, I’ll tell you what I’ve been trying to teach. So, the first thing is what the—so, there’s a model of dynamic economies under uncertainty that’s kind of a work-horse model of all good applied economists and theoretical
economists. And like any model, it’s an abstraction. It makes very simple assumptions that aren’t realistic.

But hopefully, what it captures is good and what it leaves out isn’t essential. That’s the idea. So, my first year of class I teach this basic model because you have to understand it if you want to criticize it. And in my second-year class, I start criticizing and try to improve it. And one of the things both Chris and I have used is this idea of rational expectations, which we also use in game theory.

It’s an assumption that people basically understand what’s going on and you can’t fool them. So that statistically, they use probability distributions about the future that are consistent with the data. It turns out to be a very powerful idea. But then, is it applicable? Sometimes it is. Sometimes it’s incredible.

So, what do you do when it’s not applicable? So, the second-year class, we’re trying to scratch our heads and figure out how to go beyond it without being totally nihilistic and throwing out everything. So, we’re trying to improve rational expectations. And I do this differently than Chris, but I’d say he’s done—we try to do the same thing. So, in our
class, I tell them one way to do them, and he tells them another way. And hopefully, some will happen.

C. Sims

Well, this semester, besides sharing a second-year graduate course with Tom, I’m also teaching undergraduate money and banking course at Princeton. That’s, of course, going, through the basics though the basics have changed in the last couple of years. So, it’s a little more work than it might be because you can’t use some five-year-old textbook and just follow it.

In graduate teaching, I teach time series econometric methods. Those are the tools of statistics that we use to evaluate models and estimate them and use them to project the effects of policy. I teach in an area—I do this mostly in the second half of the course that Tom and I are teaching together that I’ve labeled Rational Inattention. This is applications of information theory to economics.

It’s a version of the agenda that Tom described, trying to go beyond the assumption that everybody in the economy understands the whole structure of the economy by recognizing that everybody has to be processing information as they make economic decisions and looking into the implications of simply asking — suppose people have limited capacity
to process information in the same sense that engineers postulate that a telephone line or a broadcast channel has a limited capacity to transmit information. And it turns out that bringing that kind of formal thinking about limited information transmission to bear on economics has some promise in explaining some otherwise anomalous behavior that we observe. And finally, I teach in this same advance macro course, material on interactions of monetary and fiscal policy, trying to drive home the point that’s not really there in many of the standard models that people use that monetary and fiscal policy are never really completely distinct.

R. Durkee

Are there any further—yes, down here.

Journalist

Hello, I’m … from Chosun Daily Newspaper of South Korea. I have two simple questions. What are you planning to do with your prize money? And the second one is, since I came from New York this morning, do you have any view on the protests going on on Wall Street?

C. Sims

I already told—I answered a question about this, I think, in the Nobel press conference, not going to do anything with it for a while and just think about what’s a good way to deploy it. Not going to try to decide that today, the money.
And about the protests going on at Wall Street, my impression is that their objectives are fairly incoherent. I was, as a college student, a protestor myself. I marched on Washington to end nuclear tests, and I’m proud of that. So, I don’t have any fundamental objection to protests, and I think these protests do reflect people’s legitimate irritation that policy makers don’t seem to have been able to restart the economy and many people are hurting because of what’s happened to the economy. It would be nice if they were more careful about formulating realistic policy objectives, but as an expression of anger and outrage, I think it’s legitimate.

Phone Moderator All right, from the phone lines, we do have a question from the line of Paolo Mastrolilli with La Stampa, Italy. Please go ahead.

P. Mastrolilli I would like to know if in order to save the euro, you think that some of the weakest countries should leave the currency.

T. Sargent In all due respect, that’s not a question that I, as an economist, can answer. So, my little story about the United States, there was some pretty weak currencies there and none of them left. And Alexander Hamilton—so, why did Alexander Hamilton want to nationalize the debt? Because he wanted the creditors of those individual states to become supporters of
essential government, not state government. So, he was using some game
theory. So, he saw possibilities like that.

So, could something like that happen in Europe? Sure. Are there some
people who are betting on that? Yes. Are there some people who are
hoping for that? Yes. Are there some people who hope the other way?
Yes. So, we need some—that’s all.

R. Durkee  Chris, do you want to add to that answer?

C. Sims  Tom’s point is that’s really a question about how the politics are going to
work out. I think it is—one additional point is that the notion that things
will get settled in the euro if only some weak countries leave it is
unrealistic. That might happen as part of the evolution of the system, but
it’s in no sense a cure for the problems that face the euro.

R. Durkee  Did you want to add to the earlier question, or are you okay on that about
protests?

T. Sargent  About protests?

C. Sims  And what you’re going to do with the money.
T. Sargent So, the question about money, I’m a living illustration of Sims’—I should like it that he says it’s rational inattention. I’ll just say that.

R. Durkee Other questions? Here it is—over there. And you have a mic, terrific.

Audience member So, the work that both of you did in the past was indeed groundbreaking, and I wonder if you could tell us a bit about some recent work that we don’t all know about and that you would consider groundbreaking or a lot of potential for the future. I know it’s hard sometimes to predict this, but at least, what your expectations are. And I hope it’s not a shrewd comment.

T. Sargent Why don’t you go first, Chris?

C. Sims I think it’s hard to predict what’s going to be groundbreaking. It’ll probably be something that those of us, of Tom’s and my age, think is ridiculous. So, I wouldn’t really want to predict.

This rational inattention idea, I have my fingers crossed that it could provide a lot of progress. There’s been a steadily expanding number of papers applying it to different fields, so it might turn out to be a new big
thing, but as with most new ideas, probably not. And I don’t know how to
make a better prediction than that.

T. Sargent  Without categorizing, I’ll tell you one thing I’m excited about, so, it’s a
project that I’m working on with a friend, George Hall, soon and Chris is
too. So it’s very pretentious. We’re going to write a monetary—we’re
going to write a fiscal history of the United States. So, we’re collecting
data on basically everything the United States has done since the
beginning of the republic to now, fiscally.

And we’re looking at the data in light of a few models to see if we can tell
us about some of the things we have today, we have experienced in the
past, some we haven’t. So, we just want to organize the data in an
intelligent way and see what it says, and we’ve already encountered a few
surprises that the past has taught us.

R. Durkee  Question over here. Hold on for the mic.

G. Mulvihill  I’m Geoff Mulvihill from the Associated Press, and I wanted to see if you
could tell us more about the ongoing arguments; how long ago they started
and what issues you continue to argue over.
T. Sargent  

Do you want to go first? So, in all due respect, Chris isn’t always the easiest person to understand when he says something the first time. So, the things that I’ve learned from him are basically on two levels.

One is he’s been extremely generous in commenting on papers. And I have a large set of his comments on my papers. And they start like this, “This paper is deeply flawed.” And then, you read on. And then, typically, they’ll often have something at the end.

Like I remember one of the first ones, it said, “Rereading the proceeding paragraphs, it makes me think that you may think that I’m completely negative about your paper. This is not necessarily true.” And then, that gives you hope. So, typically, there are gems in there. So, that’s him, very generous.

Then, the other thing is kind of comments at seminars and things where he’ll make some comment, and it’s like, “What is he talking about?” And then, but it will stay in there because you know who’s talking. You’ll stay in there, and then, oh my God, you’ll realize that he’s told you how to crack things.
And I’m not alone in having had this experience. I see a couple of his students here, and that’s not always—it’s not a pleasant experience when you’re going through it. But today, it feels really pleasant.

C. Sims

So, I thought I should say something about what we actually disagree about or have disagreed about. One area that we have drawn out in the two times we’ve taught this advanced macro course is over the question of whether Leonard Savage’s Bayesian decision theory really needs revision.

Tom and our joint student, Lars Hansen, have done a lot of work on applying variations on decision theory that attempts to go beyond Savage’s framework. And I’ve been skeptical that these are really helpful for practical decision making. And if you want to understand these debates, you can look at our web page.

We also had a long running argument about a topic that’s summarized in a paper of Tom’s, that I think’s called Vector Autoregressions and Advice, something like that, which was about the question of whether—how policy—how economists can give advice to policy makers, and indeed, whether it’s really possible for economists to give useful advice to policy makers.
Tom, in this paper, set up a straw man that he called me, who he claimed essentially had to conclude there was no way to give any useful advice, whereas his approach provided a way to give useful advice. And I argued back to him over the years that this wasn’t true and that there’s lots of room for us to give policy makers advice. I think no economist actually ever comes to the conclusion that he can’t give policy makers any advice.

T. Sargent

Yes. Could I say something about this? It’s true, I wrote that paper. And then, I got two comments on that. I got a message from Chris, “This paper may represent somebody’s views, perhaps your views, but it doesn’t represent mine.” And then, the other, I got a message from our friend Bob Lucas at Chicago, and he said, “With friends like you, Chris doesn’t need enemies.”

R. Durkee

Is there another hand up? I’m going to ask one more question then that came in on the Internet. This is a question; I’m just reading the question. "Do you consider that your award is a vindication of modern macroeconomics and the rational expectations concept?"

T. Sargent

Okay, that’s between the models and the data.
C. Sims

The vindication for real scientific events and economics is not any prize.

It is, I think, good for modern macroeconomics, quantitatively based that
the Nobel Prize gives public attention to our approach. Now the question
asked about whether it’s a vindication for modern macroeconomics and
rational expectations, modern macroeconomics is a huge array of stuff, a
lot of it mutually contradictory. So, I don’t know how it could be a
vindication for that.

And furthermore, Tom and I have in recent years been heavily occupied
with trying to go beyond strict rational expectations. So, to claim that this
is a vindication of rational expectations couldn’t possibly be right. But I
think that there have been attacks on “modern macroeconomics” and
“rational expectation” by people who would like to believe that highly
technical, careful, statistically-based macroeconomics led us into our
recent great contraction. This is a caricature, and in fact, my view is that
technical, careful, statistically-based macroeconomics is our hope for
getting out of the current difficulties.

R. Durkee

We have time for one more question, if there is one more question.

Somebody’s pointing to somebody. Okay, I see a hand. You don’t have a
microphone, but be loud.
Audience member  [Said heard that each professor still taught their morning classes. Asked how teaching was that morning after having won the Nobel. Fanfare?]

C. Sims    Well, this was a precept in money and banking. If any of you are here from that course, you know that there were 85 people at the first lecture, and 26 people handed in the first exercise, which involved a rather difficult model solution. So, the precept has, I think, six students registered, and five showed up. There wasn’t that much fanfare.

R. Durkee  Well, there will be fanfare to come, I’m sure. Thank you for that final question. Thank you, Chris and Tom, for being here this afternoon.

There is going to be a reception immediately following this press conference over in the common room at Rockefeller College. Those of you who don’t know the campus, if you walk out the door, just follow the signs to Rockefeller College. Thank you both for being here this afternoon and taking these questions, and congratulations again.