

L'INVASION DES SMURF: ECONOMETRIC SOCIETY EUROPEAN MEETING ESEM97 — TOULOUSE

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1. Smurfs

In late August 1997, some residents of Toulouse, Europe's space capital, were overheard to say that their city had been invaded by smurfs, a cartoon character that carries a blue shoulder bag around. This can be blamed on the blue rucksack/carry bag that was part of the registration pack for the Econometric Society European Meeting held at the Université des sciences sociales, Toulouse, over the period 27–30 August 1997. The registration pack contained a pen, note pad, book of abstracts, a 60-page program, a name tag, a list of participants (including their EMAIL addresses) and tourist literature about Toulouse. There was no volume of conference proceedings, just 30 address slips which could be used to request copies of papers (to date I have received nine of the 30 papers I requested but none of the invited papers I requested). Registration also included morning and afternoon coffee, tea or orange juice, an 'airline-style' lunch every day (with wine included!), attendance at three receptions and the conference dinner. There was a range of registration fees depending on the time of registration, membership of the Econometric Society, and proof of student status, but for the early bird Society member registration was 1650 FF (about \$US270) and this provided extremely good value for money. Those participants like me who left their registration to five or ten minutes before the first contributed paper session started at 9:00am on the 27th, would have found out the conference was opened by Bernard Saint-Girons, President of the Université, at 8:30am (the opening was not listed on the preliminary program circulated by mail to participants). Registration was so efficiently organized that it took less than 30 seconds!

A recent Australasian Meeting of the Econometric Society rated a near perfect score (see Oxley (1997a)). Professor Marc Ivaldi and his local arrangements committee for ESEM97 are also deserving of a similar rating. Professor Ivaldi hired a company called Europa to help with the management of the conference. In line with McAleer (1997, Commandment 4), he had obviously chosen this professional consultant with care.

2. Contributed papers

In each contributed paper session, there was typically ten or so streams in econometrics and twelve or so streams in economic theory being held simultaneously, offering plenty of choice. In each stream there were either three or four papers, with presenters having 25 minutes for presentation and there being five minutes for discussion. There were over 700 participants from about 30 countries, a little over 110 economic theory streams and nearly 90 streams in econometrics.

Six contributed papers are worth mentioning. Anders Rahbek (Copenhagen), in a theoretical paper with Rocco Mosconi entitled 'The Role of Stationary Regressors in the Cointegration Test', showed that the way Johansen and Juselius (1992) treated oil prices in their analysis was essentially incorrect — a point acknowledged by Soren Johansen in the audience. In another paper related to VARs and the Johansen procedure, Kaddour Hadri's (Brunel) paper 'The Influence of VAR dimensions on Estimator Biases' with Karim Abadir and Elias Tzavalis provided some ammunition for both the parsimonious modelling strategy and the general-to-specific strategy. They showed that in a non-stationary VAR model augmentation with irrelevant variables not only leads to the standard loss of efficiency but an increase in the bias for all the estimated parameters. However, correctly modelled cointegration can mitigate this adverse effect.

David Hendry's (Nuffield College) presentation of his paper entitled 'The Econometrics of Macroeconomic Forecasting', a paper which has already featured in another conference review (see Oxley (1997b)) and has now been published as Hendry (1997), was again provocative. One part of the paper provides a decomposition of forecast errors into all the possible errors you can make, and Hendry suggested that deterministic shifts were perhaps the most important reason for forecast failure. Hendry's presentation also provided a wealth of quotes ranging from a comment on the previous paper in the session: 'it is very interesting to see my coauthor use measures of forecasting error when he knows that they are meaningless', 'don't believe your model is constant just because your constancy test says so', and 'misspecification, collinearity, parsimony ... they've got nothing to do with forecast error'. Even though intercept shifts are extensively used in producing forecasts from macroeconomic models and seem to work, Hendry suggested that 'if you ever wanted a conjuring trick, this is it.' Unlike most researchers who might want to deter entry into their chosen field, Hendry strongly encouraged entry into the forecasting area by suggesting that it 'is a gold mine ... there are hundreds of results to be proved'.

Valentina Corradi's (Pennsylvania) paper with Norman Swanson on 'A Completely Consistent Approach for Selecting Among I(1) and I(0) in Levels and Logs' attacked an important and very neglected problem that faces applied time series workers all the time, namely, when testing for stationarity should we examine the log or the level of the variable, and how might we make this choice of functional form. For those interested in a comprehensive analysis of the general impact of temporal aggregation, Massimiliano Marcellino's (European

University Institute) 'Some Temporal Aggregation Issues in Empirical Analysis' should not be missed. He shows that while unit roots and cointegration are invariant to temporal aggregation, seasonal roots, exogeneity, causality, trend-cycle decompositions and impulse response decompositions are generally not.

Despite starting off his presentation with the statement 'it is scary that there is not a lot of literature', Badi Baltagi (Texas A & M) managed to prepare over 50 slides for his presentation on 'Simultaneous Equations with Incomplete Panels'. He deserves a prize for being able to show the most slides in a 25 minute presentation (at least 40!). Baltagi's excuse was 'I apologise for rushing but that's the state of the world ... I don't like jumping directly to the results'. The bottom line of his paper was that researchers should not throw data away in order to make their panel balanced.

One presenter indicated how easy it is to estimate SETAR (self-exciting threshold autoregressive) models by suggesting 'you simply run a couple of hundred regressions ... that is easy'. Another honestly reported that 'what I am looking for is a very sharp knife ... then wham and cut'. Fortunately he was talking about murdering the data rather than murdering people. Other classics included 'This will be gobbledegook to some people' (and it was), 'I would assert we have a Hodrick-Prescott filter in our eyes and in our ears', and a new(?) explanation was offered for data errors 'students inputting data in the evening with a beer in one hand ... this is reality'.

3. Invited papers and keynotes

Participants were treated to a wide range of invited papers and the organizers certainly fulfilled McAleer's (1997) Commandment 8 about choosing the keynote speakers wisely (The Commandment needs to be amended to include choosing discussants wisely as well!). It is worth pointing out that the book of abstracts did not contain an abstract of any of the invited papers, even though at least one of the papers has been around for over a year! Robert Lucas (Chicago) devoted his presidential address to the topic of 'Inflation and Welfare' and the theoretical justification for measuring the cost of inflation as an area under a money demand curve. The choice between log-log and semi-log versions of the money demand curve and the appropriate interest elasticity of demand were made through graphical means notwithstanding the fact that these choices produce crucial differences in welfare costs. The discussion that followed was lively to say the least, with David Hendry arguing that the welfare cost calculation was very misleading because of the poor empirical technique used to determine the money demand function. Lucas' response to a question about the possible costs of unemployment due to the Phillips Curve trade-off was 'Politicians are willing to believe and econometricians are willing to work it till they find it. I don't see it.' His responses to other questions are worth reporting: 'I am not familiar with the studies so I better avoid the question. I hope they are wrong' and 'I have not answered your question but I have said all there is to say'.

Bo Honore (Princeton) should be congratulated for making an impressive effort

to make his presentation on 'Limited Dependent Variable Models for Panel Data', an extremely difficult and technical area, very comprehensible. He certainly succeeded in transmitting to the audience what is known and what is not known in this area. This paper was an excellent survey and provides a superb guide to the sort of invited paper that participants expect. Given the comprehensiveness of the survey, the discussant, Manuel Arellano (CEMFI), avoided discussing the paper altogether but rather introduced two of his related papers (one of which was presented later by his co-author in a contributed paper session).

In the only true joint economic theory and econometrics session, Frank Wolak (Stanford) provided a comprehensive and understandable analysis of the recent experience in the UK with privatisation and reorganization of the electricity markets. Bengt Holmstrom (MIT) gave the Fisher-Schultz lecture on the topic of 'Liquidity'. The point of the paper was to provide a simple model where liquidity mattered, and where there was a role for the government to intervene in some circumstances to provide liquidity. Government intervention was not to be of the fine tuning variety but to occur only in extreme situations. He claimed 'there are empirical predictions [of the model] but they are all immediately refuted' and this did not seem to worry him. Lars Hansen's (Chicago) paper, 'Robust Decision Making and Risk in Dynamic Economies', was designed to explore the implications of economic agents having a concern about robustness when forming expectations, that is, worrying about the possibility that the model they are using is misspecified. One important implication was that the market price of risk includes a specification error premium. It was a rather technical presentation, with Hansen delivering 'a five minute crash course in continuous time markov processes ... it's a piece of cake!' When Hansen said 'You'll have to trust me that the derivative is simple and it is this' and 'I'll ask you to trust me, it's not beautiful but it works' no one was going to disagree as they were not interested in the technical details.

4. Networking and the social program

The web site for the conference was superb, containing not only details of the program and permitting abstracts of the papers to be downloaded, but it also contained a wealth of tourist information about Toulouse. One (the only?) obvious organizational lapse concerned the EMAIL facilities. For the first day, only two terminals were available (increased to three from day two). This was totally inadequate. Users were also to find that the keyboard was European rather than American which probably caused more spelling errors in EMAILS than normal. Problems like broken OHP machines and locked seminar rooms were quickly remedied by the army of helpers on hand.

The social activities contained some real highlights. One was the conference dinner held on day 2 at Revel, about 55 kilometres from Toulouse. Buses ferried participants there and back, and gave participants a chance to see some of the great French countryside. The surprise welcome event was a brass band. Once everybody had arrived, all participants were paraded through the streets of Revel

from the bus stop to the 14th century market place where the dinner was held with the brass band at the head of the parade. Many a resident of Revel came onto the streets to see some of the world's best economists and econometricians on parade! South west cooking (=veal cooked on an open spit) was on the menu. Following French tradition, the three course dinner proceeded at a leisurely pace so that participants got back to their hotels just before the witching hour. One minor complaint was that there was only one toilet for several hundred guests which led to long queues and a lot of discomfort! This dinner certainly satisfied McAleer's (1997) Commandment 7 that the dinner be excellent. The second highlight was a 100 minute concert of classical music held in Saint-Etienne Cathedral following a rather short reception in the garden of the 'Prefecture' (there was very little food). The first half of the program featured the Toulouse National Chamber Orchestra and the second half featured baritone Jean-Philippe Lafont and soprano Elodie Cassarino. The singers were given a rousing standing ovation at the end of their performance. The final highlight was a joint reception with the European Economic Association held at La Manufacture des Tabacs on the final night. The program promised 'lots of food and a Jazz Band'. After the lack of food at the reception the previous night, expectations of 'lots of food' were not high and some people decided when no food had been served after thirty minutes that it was time to go and find a restaurant. They made a big mistake. The food might have been slow in coming but there was certainly plenty of it (and plenty of drink too), and it included delicacies such as snails and foie gras. There was no need for a restaurant visit after this reception.

Participants were offered the choice of a range of accommodation from one star to four star hotels or student dormitories, the latter costing an incredible 80FF (\$US13)! The travel agent designated to look after the accommodation was extremely efficient with bookings and I heard no complaints about the accommodation (cf McAleer (1997, Commandment 5) about taking care when choosing the conference accommodation). As a city with plenty of character, restaurants and cafes, Toulouse was an excellent choice for the conference. In addition, all the hotels were less than 15 minutes walk from the conference site.

Those residents of Toulouse who thought that the end of ESEM97 would lead to the disappearance of the smurfs would have been disappointed to find that the blue smurfs were replaced by red smurfs as the bag in the registration pack for the Congress of the European Economic Association (EEA97) held in Toulouse immediately following ESEM97 only differed in colour! Recent convention is that the ESEM and EEA are held in the same city successively. In my experience, four days is about the maximum for even the most ardent conference enthusiast, so the organizers should consider holding the two conferences simultaneously or in different places. Following convention, next year's ESEM and EEA are to be held one after the other in Berlin.

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