Review

Reviewed Work(s): Lost Prophets: An Insider's History of the Modern Economists by Alfred Malabre, Jr.

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If *mens sana* is as essential to trading success as Bernstein claims, how can we explain the reputed wizardry of John Mulheren, head of Buffalo Partners? Mulheren not only acknowledges freely that he suffers from manic depression, he has celebrated the fact by opening an ice cream parlor called "Crazees."

A more fundamental problem with Bernstein's thesis is that he only partially differentiates between traders who operate on the exchange floor and customers who deal through brokers. He notes that professionals generally have more time to devote to the markets, but omits a second key distinction: Customers are less likely than are floor traders to get "hit" on the bid side of the market or "lifted" on the offered side. Accordingly, a trading system may prove sufficiently accurate to make money for floor traders, yet fail to be profitable for other speculators, even for those who follow the system religiously.

In Bernstein's world, however, there is little hope for skeptics. "If you sincerely want to be successful in the market, then you will implement the program I am discussing. If you do not," he warns, "then the chances you will ever come out on the profitable side are slim indeed."

I might be more cowed by this absolutism if the author's prose did not contain abundant evidence of his intellectual fallibility. Bernstein ascribes the wrong sense to "sensibility," confuses "loathe" and "loath," and uses the redundancy "daily diary" (unfortunately rendered by the typographer as "daily dairy"). He either does not understand the term "quip" or has a woefully underdeveloped sense of humor. ("What's up, Joe?" is his notion of an example.) Finally, Bernstein improperly employs "however" (sans semicolon) to join independent clauses no fewer than seven times in a single six-page stretch.

The Investor's Quotient unquestionably provides insight into the growing use of motivational training as a technique for enhancing trading skills. Upon close examination, though, the most important insight may be that there is no significant financial payback on getting your head screwed on better. In all likelihood, inherently unforeseeable market developments will continue to deal out gains and losses, even to investors who have found inner peace.

—M.S.F.

Lost Prophets: An Insider's History of the Modern Economists. By Alfred Malabre, Jr. Harvard Business School Press, 1994, 224 pages, $27.95.

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Alfred Malabre has been covering economics and economists for the *Wall Street Journal* for three decades, and everyone who reads his columns knows that he is a superb reporter. This book will not disappoint his readers. It is lively and informative, filled with amusing anecdotes and gossip and, at the same time, providing a serious history of its subject—the role of economists in U.S. policy and business forecasting since the 1940s. In Malabre's hands, this is not history for its own sake, but history intended to provide insight about the future and about the strengths and failings of economic advice.

Malabre has the wisdom of many years of experience. He admits that, in his younger days, he was sometimes taken in by smooth-talking economists peddling the latest theory. With benefit of hindsight, he is a ruthless critic of some of the fads that have gone wrong, including the strict money supply watchers and the supply-siders. Malabre acknowledges the role of his own newspaper in promoting the latter, including the fallacy that tax cuts would not increase the federal government's deficit. However, he glosses over the fact that many of the leaders of the movement were not even economists by background.

This book is up-to-date and includes a discussion of economists in the Clinton administration. Malabre notes with seeming approval the diminished role of macroeconomists under Clinton, and takes this as another sign of the public backlash against macroeconomic fine-tuning. He has missed the irony in this. Many of the continuing problems of the U.S. economy are the result of past errors of macroeconomic policy (particularly in the Reagan era). The Clinton administration, ignoring this, has headed off in the direction of the new policy fad of microeconomic tinkering.

Malabre rightly points out that, in spite of the highly publicized failings of economists as forecasters, they typically do better than noneconomists, who often assume that the future will be a straight-line extrapolation of current trends. Economic volatility is affected by many nonsystematic factors, and some aspects of the economy are unforecastable. The trick is to use economic forecasters in those areas where their relative strengths lie. Economics is not good at predicting the timing of turning points, but it is good at warning about the types of turning points to watch out for.

Malabre hints that the greatest failings in economic forecasting have not come about because of fundamental flaws in economic theory, but because economists (especially the ones in the limelight) are all too human. They often have a hidden agenda, be it influencing political outcomes or adhering to the biases of their clients. It is also human nature to try to impress people with flashy slogans that have little substance. For investors who hope to use economic forecasts wisely, the message is clear: Look for a modest economist who studies a broad range of fundamentals and is realistic about the strengths and limitations of his craft.