

Commentary

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Mr. Klein has done an excellent job of setting the stage for this entire conference. His review has brought us to a common ground regarding the general nature and development of econometric models as well as some straightforward observations on their current and potential value and shortcomings.

My comments here are made from a user or decisionmaker point of view. I prefer to use the broader term "decisionmaker" rather than policymaker. Only some decisionmakers are policymakers, but all decisionmakers have reason to at least consider the possible use of econometric models.

Two keys to the future success of the actual use of models in the formulation of policy or their influence on day-to-day operating decisions are: (1) further developments in both methodology and variable definition and (2) much greater understanding and acceptance on the part of decisionmakers regarding the use of models.

Decisionmakers usually can be found at any point in one of three states regarding their acceptance and/or use of econometric model results.

(1) Total antipathy or refusal to consider them.

(2) Conditional acceptance, in which there is the use of a reasoned and balanced mix of model results, intuition, and personal judgment.

(3) Blind faith in the model results and decisions made accordingly, with complete abdication of responsibility to use one's own thinking mechanism.

Individual decisionmakers can and do move back and forth among these three categories based on (a) their past and current educational exposure to models and (b) their personal experience

with model-generated or -assisted **decisionmaking**. Given there is reason to believe (and I am among those who do) that models **should** have and, do have an increasing role to play in decisionmaking, modelers, **have** a challenge to, **help** move as many decisionmakers into **the** conditional acceptance category as possible.

Perhaps Klein's most important point is that: "a model is a **simplified** approximation of reality." Models **are**, after all, just models. They are tools in the decisionmaking process, not the decisions **themselves**.

Regarding the use of model results, the need to inject intuition and personal judgment cannot be over emphasized. At the same time, there is a need to have more decisionmaker input into model development, particularly in definition of variables. Not only can this result in more useful variables and, hence, more useful model results, but decisionmakers will have more confidence in the results.

Models to date have been appreciably better for predicting general trends than absolute values. The smoother the trend the better the prediction.

In general, the higher the level of aggregation the better the predictive ability. National models perform better than regional models, **and** regional models perform better than state models. And, for a variety of reason, there is considerable variation in the predictive ability of similarly constructed **regional** models. For example, models used by **FarmBank** Services to predict interest rates, demand for agricultural credit, and loan volume enjoy considerably better predictive ability in some of the Farm Credit System's twelve districts than in others. Such inter-district variations as seasonality of loan, demand, concentration of loan size, and historical growth trends **are** some of the factors accounting for differences in the reliability of model results among districts. The obvious implication is the need to tailor models to the level of aggregation, geographic area, or economic sector which will produce satisfactorily precise results.

I would emphasize again the need for decisionmakers to have a thorough understanding of both the opportunities and the limitations of econometric models when used as decisionmaking tools. Only in this way can they make a judgment as to **whether** they can justify the cost of using them. **Also, such** an understanding **is essential** in order for decisionmakers to have meaningful input into the process of

model improvement over time. Hopefully, the results of this symposium, if properly disseminated and absorbed, will be a boost in this regard.