

# Ethical Economics Support

Occasional **Newsletter** of the  
Association for Integrity and Responsible Leadership  
in Economics and Associated Professions  
([www.AIRLEAP.org](http://www.AIRLEAP.org))

**December 22, 2015**

## UPCOMING EVENTS

**Mark Your Calendars!**

**January 3, 2016 – 7:30 – 9:00 PM**  
**Annual Directors' Meeting**

(by invitation only)

John's Grill, 63 Ellis St., San Francisco, CA

**January 4, 2016 – 8:00 – 10:00 PM**

**Open Social Gathering for Members and Visitors**

**Interested in AIRLEAP's Mission**

Anzu Lounge/Restaurant, Hotel Nikko  
222 Mason St., San Francisco, CA

## AIRLEAP'S PRESENCE AT CONFERENCES

**AIRLEAP Exhibitor's Booth**

Allied Social Science Associations/  
American Economic Association Annual Meetings  
January 3-5, 2016, San Francisco

**ONE-DAY SEMINAR FOR ECONOMISTS ON  
ETHICS, SCIENTIFIC INTEGRITY, AND  
RESPONSIBLE LEADERSHIP**

Eastern Economic Association  
February 25, 2016, Washington, DC  
(See the flyer on the last page of the newsletter.)

**FIVE AIRLEAP-ORGANIZED AND  
SPONSORED SESSIONS**

Eastern Economic Association  
February 26-28, 2016, Washington, DC

**AIRLEAP SPONSORED SESSIONS  
(Call for Papers Deadline January 15th)**

Western Economic Association International  
June 29 - July 3, 2016  
Portland, Oregon  
[http://airleap.org/CFP\\_weai2016.pdf](http://airleap.org/CFP_weai2016.pdf)

## TABLE OF CONTENTS

### Articles

The Two New Members to Our Board of Directors:  
Richard G. Anderson and  
Stephen T. Ziliak .....3

Now an *Allied Association* of the Eastern, Southern,  
and Western Economic  
Associations .....4

UPDATE on AIRLEAP in New Orleans  
at the Southern Economic Association  
Meetings .....4

Our *Significant Presence* at the  
Upcoming Meetings of the Eastern  
Economic Association .....5

### Essays

Econ Journal Watch, *Watch* ..... 6

Why Most Published Results on Unit  
Root and Cointegration Are *False*.....9

### **ONGOING ACTIVITIES**

Volunteer Intern Program .....2

Call for Organizations to Join a New  
Coalition for Promoting Professional  
Ethics in Economics .... .....2

A Listing of Ethical Codes and Conflict  
of Interest Policies ..... 11

Book Advertisements.....15

Training Seminar Flyer .....16

## **Call for Organizations to Join a New**

### **Coalition for Promoting Professional Ethics in Economics**

AIRLEAP is starting to pull together various organizations which share a strong interest in promoting integrity and responsible leadership in economics, in an effort to create a “Coalition for Promoting Professional Ethics in Economics.” Such organizations would join forces to support programs that focus on integrity, responsible leadership, and professional ethics in the economics profession (and associated professions such as finance, public policy, and international relations). These programs would be independent of any other policy agendas which these same organizations have, such as supporting entrepreneurship or enhancing job security. For example, members of the coalition might all agree that the profession should be more careful in not glorifying certain forms of esoteric, theoretical modeling that does little more than provide a mathematical rediscovery of questionable assumptions. Member organizations might strongly support the proper application of statistical methods, and proper interpretation of statistical findings. And, members may surely support objective, scientific analysis and the pursuit of a truthful understanding of the economy, and not support studies that are compromised by conflicts of interest, or that rely on biased data, etc. The creation of this coalition across a wide range of organizations will serve as a testament to a universal belief in the legitimacy and importance of ethical economic practice as an end in itself, serving as the solid base upon which policy debates may then fruitfully ensue.

Representatives of other organizations who are interested in discussing the coalition with AIRLEAP members should respond to this call at [www.memberplanet.com/s/airleap\\_membership/coalition](http://www.memberplanet.com/s/airleap_membership/coalition).

### **AIRLEAP’s Volunteer Intern Program**

AIRLEAP is offering an ongoing, voluntary internship program for economics students in good standing (which includes summer internships). We would basically expect interns to commit a total of at least 120 hours of voluntary work on their own time and at their own pace. For example, it could involve around 20 hours per week for six weeks, or 15 hours per week for 8 weeks, or 10 hours per week for 12 weeks, at the student's discretion. This would allow students the time to be a paid employee at another organization, or to serve as interns during the school year (there would be no restriction in this regard). Student interns would be welcome to list their experience with AIRLEAP on their resumes, and AIRLEAP would acknowledge your participation.

We require that voluntary interns conduct their own research, and provide a working paper of at least 5 single-spaced pages that we would post on our website with the intern listed as the author. The topic of the paper must be closely related, in some way, to AIRLEAP’s mission. A voluntary intern could correspond with us remotely, and would be expected to provide a progress report on his/her working paper at least once every two weeks. We would provide help and guidance on the working paper as the research was being performed. In addition, we would not claim any copyright control over the paper.

There is no competition among voluntary interns – all individuals with good academic records and some knowledge of economics are welcome as long as they are willing to accept the time commitment and the requirement to provide an original research paper of good quality. If you are interested, complete the volunteer signup form at [www.memberplanet.com/s/airleap\\_membership/volunteer](http://www.memberplanet.com/s/airleap_membership/volunteer).

## ARTICLES

### The Two New Members to Our Board of Directors: Richard G. Anderson and Stephen T. Ziliak



In July and December 2015, respectively, AIRLEAP acquired two new members to its Board of Directors: Professors Richard G. Anderson (above left) and Stephen T. Ziliak (above right).

Professor Anderson is a Senior Research Fellow at the Center for Economics and the Environment (in the Hammond Institute for Free Enterprise), at the Plaster School of Business and Entrepreneurship, Lindenwood University, in St. Charles, Missouri. He is also adjunct professor of economics at Lindenwood University.

Prior to joining Lindenwood in July 2013, he served 25 years in the Federal Reserve System: five years in Washington, D.C. at the Federal Reserve Board and 20 years in St. Louis. From 1992 through 2000, he supervised the research automation function in St. Louis, including supervising the conversion of FRED to a database-driven CSS-based system starting in 1998 and hiring all the developers working on FRED. At St. Louis, he also developed the modern RAM adjustment for the St. Louis adjusted monetary base and adjusted reserves (with Robert Rasche), and developed modern Divisia monetary index numbers for the United States (with Barry Jones).

In addition to teaching at Lindenwood, Dr. Anderson had taught economics at Virginia Tech, the University of Michigan, Ohio State University, and Michigan State University. He has written dozens of papers in journals such as the *American Economic Review*; *Review of Economics and Statistics*; *Journal of Money, Credit, and Banking*; and the *Journal of Econometrics*. He received his B.A. in economics from the University of Minnesota in 1972, and his doctorate in economics from Massachusetts Institute of Technology in 1980.

Dr. Stephen Ziliak is a professor of economics at Roosevelt University, Chicago. His previous appointments include Emory University and the Georgia Institute of Technology, where he was voted

Faculty Member of the Year (2002) and Most Intellectual Professor (2003). At the University of Iowa he earned (in 1996) the Ph.D. in Economics and, at the same time, the Ph.D. Certificate in the Rhetoric of the Human Sciences. He has been a Visiting Professor of Economics, Statistics, Rhetoric, Justice, Social Welfare, and Methodology at leading universities of the United States, Australia, Belgium, Denmark, England, France, Turkey, and the Netherlands

His pioneering contributions to the seemingly disparate fields of economic statistics and poetry include Guinnessometrics, the cult of statistical significance, haiku economics, reenganomics, and economics rap. His research has appeared in many leading journals, such as *The Lancet*, *Journal of Economic Literature*, *Journal of Economic Perspectives*, *Poetry*, *Biological Theory*, *International Journal of Forecasting*, *Journal of Economic History*, and *Journal of Wine Economics*. In 1996, for example, he published a seminal article with Deirdre McCloskey entitled, "The Standard Error of Regressions."

Dr. Ziliak is the lead author of *The Cult of Statistical Significance: How the Standard Error Costs Us Jobs, Justice, and Lives* (2008) with Deirdre N. McCloskey. He is a coauthor, with Deirdre McCloskey and Arjo Klamer, of *The Economic Conversation*, an evolving textbook and blog, emphasizing dialogue and openness. In addition, he edited and contributed to *Measurement and Meaning in Economics: The Essential Deirdre McCloskey* (Edward Elgar, 2001). An Associate Editor of *Historical Statistics of the United States* (Cambridge, 2006), Dr. Ziliak's work has been featured in *Science*, *Nature*, *The Economist*, *Poetry*, *Wall Street Journal*, *BBC*, *NPR*, *Inside Higher Ed*, *Chronicle of Higher Education*, *National Review*, *Slate*, *Salon*, *Washington Post*, *Financial Times*, and *New York Times*, and as testimony before the Supreme Court of the United States.

He has been appointed to a number of international committees, including the Economics Curriculum Committee Task Force of the Institute for New Economic Thinking (INET) (New York, 2010); American Statistical Association Ad Hoc Committee on P-values and Statistical Significance (Washington, DC, 2014); Chair of the "Best Article in the History of Economics" Committee (History of Economics Society, 2011-2012); the Scientific Advisory Committee of the GTC Drug Design and Molecular Chemistry Conference (Berlin, 2014; Berlin 2015). Dr. Ziliak is also a member or co-founding member of several journal editorial boards, and is a founding member of the World Economics Association.



### **Now an *Allied Association* of the Eastern, Southern, and Western Economic Associations**

Over its nine-year history AIRLEAP has organized many conference sessions, especially at the annual meetings of the American Economic Association (AEA) and the Society of Government Economists. However, prior to 2015, the Society of Government Economists (SGE) was the only economics organization that regarded AIRLEAP as an allied association—that is, an association that is automatically provided with an allotment of sessions at its annual conference. AIRLEAP therefore needed to compete with other groups in order to acquire its sessions at the AEA meetings and other conferences (with the exception of the SGE’s annual conference).

**That has all changed in 2015. AIRLEAP has recently become an allied association with the Eastern Economic Association (EEA), the Southern Economic Association (SEA), and the Western Economics Association International (WEAI).**

In November 2015, AIRLEAP held four sessions at the SEA annual conference in New Orleans (see below); in February 2016 we will have five sessions at the EEA conference in Washington (plus a one-day training seminar before the conference sessions begin); and in June-July 2016

Our members of AIRLEAP are continually notified of our next calls for papers and organized sessions at these conferences. Our current call for papers is for the WEAI in **Portland, Oregon** on June 29-July 3<sup>rd</sup>. See <http://tinyurl.com/AIRLEAP-WEAI> for details and to apply.



**Portland**



### **UPDATE on AIRLEAP in New Orleans at the Southern Economic Association Meetings**

On November 21-23, 2015, AIRLEAP organized four sessions on integrity, responsible leadership, and professional ethics in economics. These sessions were summarized in the previous newsletter in May 2015. (See the previous newsletter issue for details on the papers presented, though a few of the papers were canceled as some of the presenters were unable to come to the conference.) The four sessions were very well attended and generated great discussions.

That evening many of us who presented and attended our sessions gathered at Felix’s Oyster house (shown below) for a continuation of the discussions and just a fun time. It was rough finding seats at first (the restaurant did not take reservations) and we suffered some casualties in the sense of some people bailing out as we were waiting for tables. But we eventually persevered and acquired two adjacent tables, and then proceeded to make up for lost time!





**Lead Instructors:**  
George DeMartino and  
Deirdre McCloskey  
(Authors of the *Oxford  
Handbook of Professional  
Economic Ethics*)

**Keynote:**  
William  
Easterly  
(Author:  
*The Tyranny  
of Experts*)

**Directors of Economics Agencies:**  
Erica Groshen, Bureau of Labor Statistics  
Keith Hall, Congressional Budget Office  
Brian Moyer, Bureau of Economic Analysis

## Our Significant Presence at the Upcoming Meetings of the Eastern Economic Association

At the upcoming annual meetings of the Eastern Economic Association AIRLEAP will offer a special, one-day training seminar for economists on “Principles of Ethics, Scientific Integrity, and Responsible Leadership.” The seminar is also a monthly event for the Washington-based, National Economist’s Club. (See the flyer at the end of this newsletter for details.)

Our five upcoming sessions at the Eastern Economic Association’s conference are as follows:

### 1. The Academic Job Market, College Tuition, and a Taxonomy for Students Regarding Ethics

“Open Admission v. CSR: Dammed if You Do and Dammed if You Don’t”  
William Patrick Leonard, SolBridge International School of Business

“A Taxonomy of the Topics Associated with Ethics in Economics”  
Steven Payson, AIRLEAP

“The Demand Side of the Economics Job Market”  
William Sawyer, Texas Christian University

### 2. Advances in Economics Education

“Issues in Teaching Economics and Pluralism in Brazil”  
Rafael Almeida, Universidade Federal De Minas Geris, Brazil; Ian Almeida, Universidade Federal De Minas Geris, Brazil

“Market Ethics with Trade in an Edgeworth Box”  
Steven Suranovic, George Washington University

“Using the Evolution of International Trade Theories and Kahoot! To Teach Comparative Advantage”  
Ying Zhen, Wesleyan College

### 3. Ethics and Integrity in Financial Economics

“Global Early-Warning”  
Peter Doyle, Consultant, Retired from IMF

“Finance Education and the Propensity to Pay Rent in Public Housing”  
Michael Elonge, University of Maryland

“Improving Integrity in the Financial System”  
Gillian Garcia, Gillian G.H.Garcia Associates

### 4. Issues in Econometrics and Studies on Economic Development

“Globalization and Economic Leadership in Resource-Based Economies”  
Kenneth Fah, Ohio Dominican University

“Why Most Published Results on Unit Root and Cointegration Are False”  
Hari Luitel and Gerry Mahar, Algoma University  
“Determinants of Economic Growth in ECOWAS Countries: An Empirical Investigation”  
Yaya Sissoko, Indiana University of Pennsylvania;  
Brian Sloboda, US Department of Labor

“Measuring the Effect of Rural Broadband Investment Policy”  
Peter Stenberg, USDA-ERS

### 5. Leadership Responsibility in Economics

“How Europe is Seen from Outside the European Union”  
Anita Cassard, University of Phoenix; Brian Sloboda, US Department of Labor

“The Case for ‘Economy Harm Profile’ Analysis”  
George DeMartino, University of Denver

“Economics at Its Ugliest: Adolescent Scategoatism and Dehumanization of Government Workers by the Right, and of Corporate Executives by the Left”  
Steven Payson, AIRLEAP

Please consider attending the Eastern Economic Association Conference to hear these sessions. We will also have a social gathering (with the time and place yet to be announced) for AIRLEAP members and friends during the conference.

## ESSAYS

AIRLEAP invites essays (and book reviews) from its members for possible publication in *Ethical Economics Support*, subject to review and approval by AIRLEAP's Newsletter Committee. Such essays may include editorial comments or rebuttals to previously submitted essays. Authors may choose to remain anonymous in the publication, but they are asked to let the Newsletter Committee know who they are to verify their membership. The Committee will honor the anonymity of authors who choose this option. Authors are offered considerable latitude in expressing critical or provocative ideas; however, essays must not critically accuse any particular individuals of wrong doing. The motivation of the essays is to exchange ideas and learn from each other. For additional information about submitting essays see the instructions at the end of this section.

To submit an essay for consideration in this newsletter, please visit: <http://tinyurl.com/AIRLEAP-Essay>

**The essays presented here reflect only the opinions of the authors, not the opinions of AIRLEAP.**



### Econ Journal Watch, *Watch*

Anonymous

It is interesting how the word “watch” is used to name a “watchdog” organization, such as “Human Rights Watch,” and “Judicial Watch,” where the word is the last word in the organization’s name, following the words that define whatever it is that the organization is watching. And so, in line with this, there exists the organization *Econ Journal Watch*; the idea being that this organization keeps a critical and scrutinizing “watch” over economic journals, particularly those journals in the United States, given that *Econ Journal Watch* is headquartered in the United States.

This essay represents the *squaring* of this “watch concept,” by presenting a “watch of the watchers,” so

to speak; specifically, a watch of *Econ Journal Watch*, hence the title, “Econ Journal Watch, Watch.”

Why am I using such a play on words, as opposed to simply titling this essay, “An ‘assessment,’ or ‘critique,’ or ‘evaluation,’ of *Econ Journal Watch*”? My purpose was not simply to present a play on words, but to apply the principle that “those who dish it out, should also be able to take it.” That is, the “watch” word conveys a bit more than “critical review”—it conveys a sense of authoritarian or paternalistic presence, as when a parent might warn a child to behave by saying “I am *watching* you!” This is what *Econ Journal Watch*, by its title alone, conveys, as well, to the editors of economics journals: “We are *watching* you!” with the additional, implicit, paternalistic suggestion, “So you better behave!”

Now it is time, in this essay, for the leaders of *Econ Journal Watch* to be *watched*, in the same way that they have watched economic journals. Whether it will enable them to “*behave*” remains to be seen.

First, let us understand what, precisely, *is* Econ Journal Watch (EJW). It has its own website, [econwatch.org](http://econwatch.org), there is no question about that. But is it an “organization”? Technically not. Let us assume, on faith, that the EJW is exactly what it says it is, which is “a project legally existing within the Atlas Network.”<sup>1</sup> The Atlas Network, in turn, identifies itself as “a nonprofit organization connecting a global network of more than 400 free-market organizations in over 80 countries to the ideas and resources needed to advance the cause of liberty.”

OK, so EJW is a “project,” but what kind of *project* is it? Is it a research project, an outreach project, a web-publication project? Its website (which is the only place where it may be seen to exist) clearly implies that is a web-publication project, though this is never said explicitly. In the closest thing that the EJW has to a “mission statement” (which it does not need anyway, as it is not an organization), the EJW describes itself as follows:

The electronic triannual *Econ Journal Watch* welcomes submissions of Comments on articles that appear in economics journals. EJW also welcomes essays, reflections, and investigations that speak to the nature and character of economics research and professional economists. EJW watches the journals for inappropriate assumptions, weak chains of argument, phony claims of relevance, omissions of pertinent truths, and irreplicability—EJW welcomes replication studies. EJW is an outlet for pointed, constructive criticism of professional economics. Articles appearing in

<sup>1</sup> <http://econjwatch.org/support/>.

EJW frequently apply theories of failure—market, government, organizational, intellectual, moral—to the practices and institutions of economists.<sup>2</sup>

This is practically all that this *web publication project* says about itself and its objectives, with one important exception—it’s “Call for Ideological Diversity” which reads, **“We are liberal but welcome proposals and submissions of diverse viewpoints, particularly for the *Comments* section. Please consider EJW as a possible forum for criticizing pro-liberalization articles, particularly if they appear in prestigious journals.”**

To be clear, the Atlas Network, under which this web publication project “legally exists,” is, by its own explicit statements, a staunch, libertarian organization, and so are the leaders of the EJW by their own admission in the second quotation. I do not mean “admission” here in an accusatory sense, but it is expressed by them as, indeed, an admission – “We are liberal but” (my own emphasis on the “but”) – followed by a direct claim of neutrality, i.e., even though we are libertarians we welcome criticisms of pro-libertarian arguments if those arguments deserve criticism.

In particular, their effective mission statement, and their call for ideological diversity, imply on their part an independence between (1) what economic journals should be scrutinized over (phony claims of relevance, etc.) and (2) whether someone is a staunch libertarian, or not. This, of course, is a good distinction that should properly be made. For example, if someone criticizes a journal article for presenting false information, the criticism may be just as valid regardless of whether the critic happens to be a libertarian or not. Moreover, the leaders of the project even go as far as saying that a libertarian, themselves, may have written an article in a journal that warrants criticism, and if so, the project should present that criticism in spite of fact that it is criticizing a libertarian argument.

My guess is that this posturing on the part of the leaders of this project may appear, to them, to have captured the higher ground of scientific integrity and nonprejudicial leadership responsibility. It may even appear to them, and possibility to others, to be *noble* on their part. But here is the problem: If the EJW project is so neutral and objective, why is it that its leaders (the “we” in the admission “we are liberal”) are all libertarians? If the mission of the EJW is to expose the falsehoods, etc., of economic journals, and to do so in a supposedly neutral (non-libertarian), scientifically objective manner, then why is it that all the leaders of the project are libertarian?

I could present a strong argument that libertarians, as staunch as the leaders of the EJW project, represent a tiny fraction of the population of economists, but for the sake of argument, and to save me the research needed to prove that claim, I will be generous in making the heroic assumption that libertarians represent as much as 50 percent of the population of economists. The leaders of the EJW project number at least a half-dozen people based on the most conservative way of counting them. If the objective of the project were truly as it is stated, then why is it that the project leaders did not objectively find those people who were most capable at leading a project with this mission, which would tend to suggest that half of those leaders (expected on average) should not be libertarians? Was it simply a coincidence, then, of the order 1/64, that all of them are die-hard libertarians?

If this seems like a trivial point, consider the following analogies, and then consider further how parallel they are to the statements made by the leaders of the EJW:

1. We, at the EJW, are **all white people**, but welcome proposals and submissions of diverse viewpoints ... Please consider EJW as a possible forum for criticizing articles by **white people or in support of white people**.

2. We ... are all **members and supporters of the National Rifle Association**, but welcome ... diverse viewpoints ... Please consider EJW for criticizing articles in support of **our guaranteed right to bear arms**.

3. We ... are all **Republicans**, but ... Please consider EJW for criticizing the **Republican positions that we support**.

4. We ... are all **men**, but ... consider EJW for promoting **equal opportunity for women**.

How noble, and scientifically neutral, do such statements sound? One clear sign of a group’s true commitment to diversity is the **diversity** of the members of the group itself. The EJW project leadership clearly pay lip-service to “Ideological Diversity” in their “Call for Ideological Diversity” (for their “comments section” at least) but their true support for ideological diversity is obviously limited to *only that*. Their effective stance on ideological diversity is this: Sure, we believe in ideological diversity in our

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<sup>2</sup> <http://econjwatch.org/about/>

Internet publications, but, of course, not in our own club.

One does not have to look very far to find clear contradictions of the EJW's alleged ideological diversity, and simultaneous, corresponding deviations from its alleged mission to improve economics journals. Advertised prominently in its website is a "Call for papers for a 'Government Propaganda Watch' symposium." Here we read:

*Econ Journal Watch* usually watches the economics profession, but in one future symposium we will 'watch' the government. We invite critiques of the propaganda of particular government agencies. The propaganda need not be expert government reports and the like; the focus may be on outreach propaganda such as government websites, pamphlets, speeches, educational videos, and so on.<sup>3</sup>

Nowhere in the "project's" description of itself does it ever state that it scrutinizes anything else besides economics journals. The project's name is not "Econ Journal and Gov Report Watch." Why, then, is the Atlas Network using its EJW project to launch its libertarian critiques of government, instead of some other forum? How consistent is the EJW's alleged commitment to ideological diversity in using its audience for this clearly non-neutral, side project?

Everyone knows that there are four sectors that generate economic thought – industry, academia, government, and NGOs/Interest-Groups – and that they each create a great deal of misinformation and rhetoric. It tends to be called "propaganda" when the government does it, but it could be equally called propaganda when the other sectors do it. Do some NGO/Interest-groups like Green Peace on the left or the Campaign for Liberty on the right present any propaganda? Do industry lobby groups? Did the documentary *Inside Job* not reveal the enormous amount of propaganda that academics generated in saying "all is well" leaving us blind to the ensuing financial crisis? Oh yes, but according to the libertarian position, the financial crisis was all the government's fault. You see, had the government not caved in response to libertarian pressure to deregulate the financial industry, it would have never happened – so libertarians are correct in concluding that it is all the government's fault for listening to them in the first place. I agree with this as well.

Whether people agree to this last aside is neither here nor there; the point is that only the tiniest fraction of economists believe that only the government has a

monopoly on the generation of propaganda in economic discourse, in comparison to industry, academia, and NGO/interest-groups. And that tiny fraction is surely delusional, but I am not accusing the leaders of the EJW project of being so delusional.

So why is it that, of all these four sectors that generate propaganda, the EJW project leaders focus a symposium on only one of them - government? The answer to that is quite obvious: These leaders are not ideologically diverse by any stretch of the imagination; they are staunch libertarians, and in support of the cause of libertarianism they have decided to use the EJW project as a resource, regardless of this being in contradiction to the EJW's expressed purpose, and in contradiction to their stated, but now clearly laughable, commitment to "ideological neutrality."

The time has come for Econ Journal Watch to do something new, which is to "watch" itself, and to hold itself to the same commitment of integrity that it often accuses economic journals of not having.

Dear EWJ project leaders: Choose one or the other:

1. Commit to scrutinizing economic journals, in a neutral and scientific manner, as the main objective of your project, and thus commit to ideological diversity. This means selecting a group of leaders to carry out this mission who, themselves, are ideologically diverse. And it means having the remaining staunch libertarians on the team find other outlets to enjoy their favorite pastime of bashing the government.

Or.

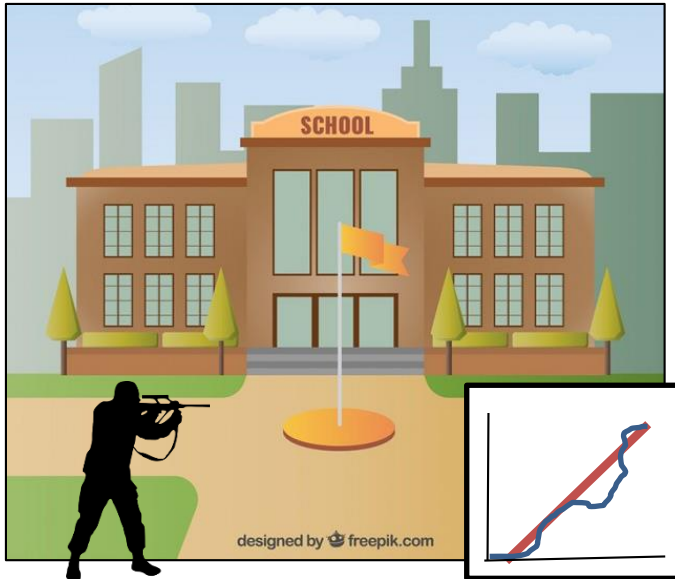
2. Toss the pretense of being ideologically diverse, follow your heart, be honest, and clearly state to the world that EJW is a libertarian project that follows a libertarian perspective and promotes a libertarian cause.

You cannot have it both ways. Such would be hypocrisy and deception, pure and simple. You expect the economic journals to capture the high ground when it comes to integrity, so apply the same standards to your own project, and *watch*, Econ Journal Watch.



<sup>3</sup> <http://econjwatch.org/news/call-for-papers-for-government-propaganda-watch-symposium>





## Why Most Published Results on Unit Root and Cointegration Are False

Hari S. Luitel and Gerry J. Mahar

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Cointegration analysis for analyzing and modeling non-stationary economic time series variables, proposed by Engle and Granger (1987), has become a dominant paradigm in empirical economic research (Hendry 2004; Royal Swedish Academy of Science 2003). Critics, however, argue that a cointegration analysis produces results that are, at best, useless and, at worst, dangerous (Moosa 2011, pp. 114). In this research, we will explain why and how the use of a cointegration analysis in economic research will lead to spurious findings and why any recommendations for public policy will likely be unsound, misleading and potentially harmful.

A study, for example, by Chintrakarn and Herzer (2012) used a cointegration analysis to examine the effect of income inequality on crime rates in the United States. Employing state level panel data in their analysis, they concluded that an increase in income inequality led to a reduction in crime rates in the United States. We respectfully disagree with Chintrakarn and Herzer's conclusion that resulted from the use of cointegration analysis and appeal to logic and judgment to make our arguments. Contrary to the above conclusion, we have learned that the intensity of violent crimes involving automatic weapons has gone up in the United States.

For example, consider the heinous incident that took place at Sandy Hook Elementary School in

Newtown, Connecticut, on December 14, 2012. In that incident, a gunman killed 26 people, including 20 children, before taking his own life. Although this incident was one of the worst school shootings in US history, it was not the last of school shootings. Since the Newtown mass shooting, there have been well over 100 school shootings in the United States. From a sociological view point, these school shootings may not be fully explained by crime statistics alone. These incidents may reflect, thus far officially not recognized, symptoms of social strife because headline news report of such incidents may only be a tip of the iceberg -- many such incidents go unreported. About 66 percent of all crimes, and even 55 percent to 60 percent of violent crimes, are not reported to the police (DiIulio 1996, page 5).

Consider other recent examples of civilian deaths from the hands of law enforcement officers without trial. Popular news media, such as BBC, CNN among others, unfalteringly reminded viewers that the civil demonstrations, protests, riots and looting that broke out following Michael Brown's fatal shooting in Ferguson, Missouri, Eric Garner's death from a chokehold in Staten Island, New York or Freddie Carlos Gray's death due to spinal injuries in Baltimore, Maryland, were a reminiscent of the urban black uprisings of the 1960s that were preceded and accompanied by social strife. Events such as these only make the matter worse for reported official crime statistics.

Another example of grave social concern in the US involves rates of suicide. A study published in the *Lancet*, a leading medical journal, analyzed suicide data collected by the Centers for Disease Control and Prevention between 1999 and 2010 and showed that coinciding with the onset of the 2007-2009 recession, the suicide rate accelerated in the United States. The study reported that during the recessionary period after 2007, there were an estimated 4,750 suicide deaths over and above the level that would have been expected if historical trends had continued (Reeves et al. 2012).

Other studies have documented that the 2008 global economic crisis was associated with an increased rates of suicide (Chang et al. 2013; Reeves et al. 2014). Similar findings have been reported for other countries and regions (Chang et al. 2009; Stuckler et al. 2009, 2011; Chen et al. 2009, 2012). What these studies underscore is that the failure of the economics discipline may lead to higher social costs than failures of other disciplines. Thus, we were motivated to explore the reasons for the apparently contradictory findings reported in the literature in economics and in other disciplines due, in part, to Chintrakarn and Herzer's conclusion that an increase in income inequality led to a reduction in crime rates in the United States. The

conclusion was inconsistent with theory and with empirical evidence.

In our assessment, Chintrakarn and Herzer's conclusion suffers from two major problems. First, Chintrakarn and Herzer did not take into account measurement problems in reported crimes statistics -- a potential source of bias in inferential statistics. For a discussion of measurement problems in reported crimes statistics, see Skogan (1975); DiIulio (1996); Buonanno et al. (2014). Second, Chintrakarn and Herzer's conclusion also followed from the use of cointegration methodology in their descriptive research design.

Several studies have reported that following the rise in crime rates during the 1970s - 1980s, the United States experienced an unexpected drop in crime rates in the 1990s - 2000s (Blumstein and Wallman 2000; Cook and Laub 2002; Zimring 2006; Buonanno et al. 2011). It is not the intent of our research to question the official crime statistics per se. We assert that Chintrakarn and Herzer's conclusion followed from the use of a flawed cointegration methodology. Thus, in order to scientifically negate Chintrakarn and Herzer's conclusion, we undertook a multi-prong approach to evaluate critically the methodology of cointegration analysis. In several planned research publications, we will report the criticism of research outcomes (results) and the methods employed to obtain such results, shedding lights on the questionable assumption of the cointegration itself.

In our review of the development of the concept of cointegration, we identified that the most important assumption of two integrated series was that if  $x_t \sim (d_x)$ ,  $y_t \sim I(d_y)$  then  $z_t = bx_t + cy_t \sim I(\max(d_x, d_y))$  (Granger 1981, page 126). Put simply, this proposition states that the sum of two, time series, variables of different order of integration will always yield another time series variable that will retain the "order of integration property" of the two series that has the higher order of integration. We found this assumption, not highlighted previously, to be false (see Luitel and Mahar, 2015b).

We are not first to criticize the usefulness of the methods of unit root and cointegration analysis. For example, see DeLong and Lang (1992, page 1270); Harvey (1997); Maddala and Kim (1998); Phillips (2003); Moosa (2011). We contribute to this research stream by highlighting the key proposition of two integrated series that legitimizes undertaking unit root and cointegration analysis in general and in particular, we provide evidence against the key proposition that has thus far remained an unquestioned foundation.

The violation of Granger's key proposition is substantial because all subsequent refinements in the method of cointegration analysis are unable to overcome the structural flaws in the basic model of cointegration analysis. As such, the method of

cointegration analysis can also be criticized on the following grounds: (i) Lack of uniqueness of cointegration results; (ii) Lack of uniqueness of unit root results; (iii) Spurious introduction of unit root in a series; (iv) Spurious introduction of cointegration in two unrelated series; (v) A fundamental problem with the concept of cointegration (Moosa 2011); (vi) The problem of structural break (Luitel and Mahar 2015a); (vii) Failure of some researchers to understand the limitations of use of secondary data; and, (viii) Publication bias. Many of these issues are elaborated in several chapters of the book.

In summary, three analogies between cointegration analysis and a sandcastle may be appropriate. First, a sandcastle may be built on sand, so it falls down because the foundation is not solid. Second, a sandcastle may be badly built. Third, a sandcastle built on seashore with a bad design may stay up but will not withstand the ebb and flow of the tides. The cointegration analysis, like a sandcastle, collapses on all three counts.

After a major economic crisis, there is usually widespread discontent over what is taught in economics, especially in macroeconomics, and what actually goes on in the economy (Shiller 2010, Colander et. al. 2009, Ormerod 1997). The subject of time series, unit root and cointegration analysis is one area. In conclusion, we report that the cointegration analysis does not withstand the test of time and is being employed in areas with little probability of producing true findings.

In a research field, if there are no true findings to be discovered, what we have learned from the history of science is that scientific endeavors are often wasted efforts with absolutely no yield to true scientific knowledge (Kuhn 1962). The best scientific tradition involves observation of the problem followed by an explanation that can be independently verified by other observers. In the name of science, cointegration analysis has become a tool to justify falsehood -- something that few people believe to be true but is false. We recommend that except for a pedagogical review of a policy failure of historical magnitude, the method of cointegration analysis not be used in any public policy analysis.

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# A Listing of Ethical Codes and Conflict of Interest Policies

George DeMartino<sup>4</sup>

Professor George DeMartino has compiled partial lists of ethical codes and conflict of interest policies which were adopted by economic organizations throughout the world. These lists are provided below, as well on Professor DeMartino's website. AIRLEAP believes that we can learn a great deal from these references. We ask our readers to tell us about any other ethics codes in economics that they know of, but which we have not listed, so that we may add them.

## Ethical Codes

### ○ **Bruegel-- Brussels, Belgium**

A Brussels-based think tank, Bruegel's "[Statement on Research Integrity](#)" includes policies which address partisanship, capture by special interests and governments, and conflicts of interest. In December 2012, Bruegel announced that researchers must make all secondary incomes, secondary affiliations or memberships publicly available on Bruegel's website.

### ○ **French Association of Economics (AFSE)**

AFSE adopted recommendations for good practice and scientific ethics for economics teachers and researchers who receive public funding. The recommendations, which include rules for field experiments, publications, and teaching, can be found [here](#).

### ○ **German Association for Social Policy (Verein Für Socialpolitik)-- Frankfurt, Germany**

VfS, a German economic association, adopted an [ethics code](#) in September 2012. The rules in the code aim to provide guidance to economists on the ethical trappings of conflict of interest, policy advising, and providing expert economic opinions.

### ○ **National Association of Forensic Economics (NAFE)-- Mount Union, Pennsylvania, USA**

Since 2004, NAFE has had an eight-point "[Statement of Ethical Principles and Principals of Professional Practice.](#)"

### ○ **The Swedish Association of Graduates in Business Administration and Economics (Civilekonomerna)-- Stockholm, Sweden**

This Swedish economic association has a list of "[Professional Ethics Guidelines](#)" on its website which outline ethical behavior in professional roles, the workplace, and in relations with the "outside world."

### ○ **Toulouse School of Economics-- Toulouse, France**

The Toulouse School implemented a "[Statement on Scientific Integrity](#)" on January 1, 2012. This statement includes rules and principles relating to non-partisanship, research integrity, relationships with the media, and outside consulting work. Additionally, the Toulouse School of Economics requires itself to publish a list of donors who give more than 5,000 and 100,000 euros to TSE each year.

<sup>4</sup> Source: <https://portfolio.du.edu/gdemarti/page/44757>, accessed May 28, 2015.

## Conflict of Interest Policies

### ○ **American Economics Association (AEA)-- Nashville, Tennessee, USA**

The AEA, one of the most influential economic associations in the United States, adopted a disclosure policy in January 2012. Although it deals exclusively with conflicts of interest and not broader ethical challenges faced by economists, this seven-point policy, which went into effect in July 2012, is one of the first such policies implemented by a major economic association in the United States.

### ○ **Agricultural and Applied Economics Association (AAEA)**

The AAEA has a conflict of interest policy in place for officers and board members in the organization which includes disclosure, recusal, and resignation rules, depending on the severity of the conflict. Additionally, the AAEA has adopted the AEA's seven-point disclosure policy for its two publications, *The American Journal of Agricultural Economics* and *Applied Economic Perspectives and Policy*.

### ○ **Canadian Journal of Economics**

The Canadian Economics Association has a conflict of interest policy for its journal. The policy offers guidelines for editors, authors, and referees on how to handle potential conflicts of interest in journal submissions.

### ○ **The French Economic Observatory (Observatoire français des conjonctures économiques)-- Paris, France**

The OFCE, a French thinktank, adopted a charter in 2012 requiring employees to disclose their connections to private sector entities.

### ○ **Paris School of Economics-- Paris, France**

Citing a loss of credibility in the economics profession after the 2008 crisis, PSE has adopted a set of "Transparency Principles" aimed at preventing a loss of scientific integrity in economics. These principles require members' disclosure of positions of responsibility, associations, and income sources over 5000 euros which may pose a conflict of interest in their research. PSE reserves the right to remind members of their obligations and take "appropriate measures" in cases of noncompliance.

### ○ **Forum for Social Economics**

The *Forum For Social Economics*, a journal published by the Association for Social Economics, follows the AEA policy for transparency of funding and data transparency, and has its own policy on conflict of interest. This policy, however, pertains more to conflicts of co-editors than authors. The policy can be found here.

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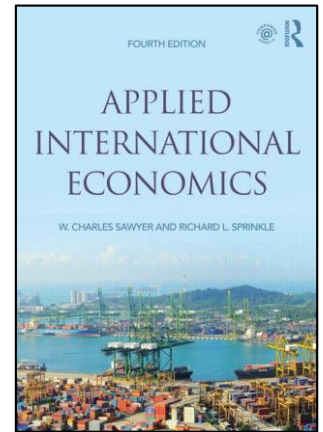
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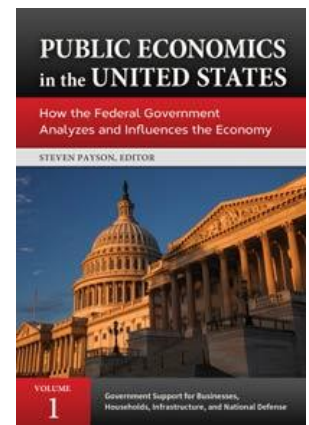
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# Ethics in Economics: An Introduction to Moral Frameworks

By Jonathan B. Wight  
Stanford – 2015 – 296 pages

**“This book...is a triumph.” —Deirdre N. McCloskey, Distinguished Professor of Economics and History, University of Illinois at Chicago**

The standard economic approach to integrity—relying only on calculations of self costs and benefits—misses the tapestry of ethical pluralism that pervades social and business life. Economic life relies on three interrelated ethical systems to solve problems of asymmetric information and moral hazard: outcome-based, duty- and rule-based, and virtue-based ethics. *Ethics in Economics* provides an accessible overview of all three frameworks, demonstrating how they work in combination to lower transaction costs and raise trust and commitment. To paraphrase Adam Smith: Why are many of us honest? *Not* because we calculate the good outcomes that follow, but because honesty is the right thing to do, embedded in who we *are* and in the moral sympathies we share with others.

Adam Smith’s moral sentiments model explains the origin and evolution of moral norms that guide behavior in social groups. When economists consider this wider ethical lens, it enriches our understanding of human behavior and improves policy making. This book is ideal for undergraduates or general readers, covering a range of topics, including:

- The hidden ethics of the standard economic model
- Ethical problems in applying the concept of economic efficiency
- Ethics and the 2008 financial crisis
- Moral limits to markets, trust experiments, and neuroeconomics
- Economic justice, and more

Jonathan Wight is Professor of Economics at the University of Richmond and past president of the Association for Social Economics. He is a co-author of *Teaching the Ethical Foundations of Economics* and author of the academic novel, *Saving Adam Smith: A Tale of Wealth, Transformation, and Virtue*.

