

[The most appalling drivel from the New York Times](#) [1]

Written by [Tim Worstall](#) [2] | Thursday 9 January 2014

The New York Times

This drivel from the New York Times is so bad that it's actually painful to read. It's following on from the paper's hit job on your friend and mine, Craig Pirrong. The argument is about how does, or how doesn't, speculation alter prices. And as I say this is so bad that it really is painful. I quote at length so you don't think I'm [cheating or anything](#) [3]:

The academic debate about what role, if any, the surge of financial speculation played in the run-up of commodity prices during the past decade remains unresolved. It is generally accepted that the price increases were in large part caused by market fundamentals ? increasing demand in China and other developing countries, currency fluctuations, the diversion of grains to biofuels. Numerous studies by economists find little evidence that speculation played a major role. Studies by other economists find that price increases and volatility were fueled, to a significant degree, by the vast amount of speculative money that has entered the market since the rise of investment funds ? particularly index funds ? that track commodities.

The task of definitively answering the question is complicated by the murkiness of the data. Most trading data is considered proprietary and is therefore not released to the public or researchers. The information released by federal regulators and the exchanges is often difficult to work with because it is aggregated in ways that make it tricky to separate investors speculating on where prices will go from those simply trying to hedge their risks. When the Commodity Futures Trading Commission gave researchers from Princeton and the University of Michigan access to actual trade data, the resulting study found evidence suggesting that financial speculation had played a role in price swings during certain time periods.

But before more studies could be done to test their findings, the C.F.T.C. research program was shut down because the Chicago Mercantile Exchange complained that a subsequent study, which was critical of high frequency trading, had improperly released confidential details about its clients. Outside of academia, many commodities traders, financial institutions and oil industry executives have asserted in recent years that speculation is a major factor behind rising prices and market volatility.

The public policy debate has also been moving toward more regulation to prevent any possible price impact of increased speculation in the future. In the United States, restrictions on speculation were included in the Dodd-Frank package of financial reforms in 2010. While those rules were blocked by a court challenge funded by the financial-services giants, the C.F.T.C. in November

approved a new set of position limits that would curtail Wall Street speculation. ? David Kocieniewski

This is just nonsense: the writer of a front page New York Times piece appears entirely ignorant of what he discusses.

Absolutely everyone agrees that speculation changes prices. No doubt about it whatsoever.

We're entirely certain that speculation in the market for physical goods changes the prices for physical goods. We're equally sure that speculation in futures and options changes the prices of futures and options. These aren't things up for discussion: they just are.

The actual subject under discussion is whether speculation in futures and options changes the underlying physicals prices. And the answer to that is, in the absence of changes in physical stocks, no. Even Paul Krugman of the New York Times agrees with that.

But this is the way that the public debate seems to be conducted these days. Read the extract again: at no point at all does the distinction between speculations in futures and options or speculations in physicals get mentioned. And it's precisely that this distinction is not made that allows the horrible mistakes. Including, obviously, the entirely untrue implication that futures speculation changes physicals prices and therefore we must regulate futures trading more.

If I thought these reporters were bright enough to recognise a bribe I'd assume they've taken one: given that I don't it must simply be that they do not understand the subject they are attempting to explain.

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