The Great Progressive Fallacy

from Don Boudreaux at Cafe Hayek (highly recommended) , a quote from Robert Higgs:

> *Nothing has done more to render modern economic theory a sterile and irrelevant exercise in autoeroticism than its practitioners' obsession with mathematical, general-equilibrium models. Not only does this focus result in the futile spinning of mental wheels by mathematical pseudo-economists, but it has pernicious consequences for policy formulation because, as James M. Buchanan has observed, it gives rise to "the most sophisticated fallacy in economic theory, the notion that because certain relationships hold in equilibrium [in the model] the forced interferences designed to implement these relationships [in the real world] will, in fact, be desirable."*

and a Boudreaux commentary:

> *Precisely. Neither society in general, nor the economy in particular, is a machine to be engineered; instead, each is a process that emerges, along with each of their many and ever-changing specific features, as the result of human action but not of human design. Economists whom I regard as the greatest – economists such as (to name only a few) Adam Smith, Ludwig von Mises, F.A. Hayek, Ludwig Lachmann, Ronald Coase, Armen Alchian, Jim Buchanan, Leland Yeager, Israel Kirzner, Harold Demsetz, Julian Simon, Richard Wagner, Deirdre McCloskey, and Bob Higgs – focus their attention on understanding the processes of human interactions and how these interactions generate undesigned and unintended orders. These orders are never in a state of equilibrium, but they do feature extraordinarily complex interconnections and feedback loops that 'knit' together, into a society and an economy, all individuals whose actions contribute to*

the formation and maintenance of these orders.

and Rebel Yid's thought:

Much of the growth of government especially in the early progressive era was predicated on advances in science that led to the great progressive fallacy: that tools of description translate simply into tools for prescription. The most notable example was the use of the science of Darwinism to justify the morally reprehensible policy of eugenics.

This is not to say that thoughtful analysis of prior events cannot be useful to avoid future calamities, Bernanke may have avoided a more damaging outcome to the recent recession with his study of the Great Depression. Or he may have just delayed it.

History, however, is not a process of evenly measured progress. Nor does it have a side. There are periods of great innovation and growth and periods of consolidation, even setbacks. Managing the economy by targeting a very narrow range (and definition) of inflation, productivity, unemployment, or market exuberance may succeed in avoiding catastrophic failures or it may delay small failures leading to fewer larger disruptions. But it may also stifle innovative waves, and cost us dearly in unseen ways.

The parable of the broken window, introduced by Bastiat, and popularized by Henry Hazlitt, should remind us all to consider the whole picture.

As McCloskey disclosed in her subtitle to *Bourgeois Dignity*, economics (alone) can not explain the modern world. I would add that it takes more than economics to manage it, and it is fairly useless by itself to predict it.

Economics is an incredibly useful tool, made more so by understanding its limits.