



Fumbling the Crystal Ball

by Richard W. Rahn

ECONOMIC PREDICTIONS ARE RISKY, BUT TRENDS POINT DOWN

The struggle between the productive and the destructive never ends. The productive are those who add more value and wealth than they consume, and the destructive are those who destroy more value and wealth than they create. Will 2014 be a year of production or destruction?

Those private individuals, firms or institutions such as the Federal Reserve and the International Monetary Fund (IMF) that make economic forecasts for the United States or the global economy are actually making judgments about the outcomes of the struggles between the productive and the destructive. The reason so many forecasters miss the mark is because there are too many unknowns to be captured by mathematical models, particularly those unknowns dealing with human responses to changing events. The Fed and the IMF both failed to foresee the Great Recession up to the moment it started, and the Fed continued to forecast growth at 4

percent for 2010-12 while the real numbers turned out to be half that.

The late Steve Jobs had many enormously productive years in which he created much wealth for himself and others, and tens of thousands of good jobs (no pun intended) for others, as well as many useful products. However, he also had a few destructive years. Yet, on balance, he made life much better for hundreds of millions of people. Many young people working at McDonald's are also being productive. They are helping to produce a product that people want and need, and, in most cases, these workers are taking care of themselves.

The vast majority of the destructive types are found in government or in enterprises that exploit government for their own interest. The government-based destroyers range from brutal dictators who kill people to regulators who create rules that hobble the productive without creating an offsetting benefit. Politicians who spend the hard-earned money of the productive (obtained by coercive taxation or from sucking wealth from the capital markets) on projects or activities that benefit their own crowd at the expense of the general welfare are major wealth and opportunity destroyers.

The good news is that most people will work hard and honestly to create more wealth for their families in 2014 — whether they are creating a new business or product, or just doing a really good job. The bad news is that in the United States, individuals and businesses now face \$54 billion more in new federal taxes and a torrent of new regulations and rules that, for the most part, make life harder. The uncertainty and cost of Obamacare is a major drag on job creation. At the same time, the new technologies for producing oil and gas are reducing energy costs, and, in so doing, are creating hundreds of thousands of new jobs, which will offset some of the job loss from Obamacare.

A forecast of an increase in oil and gas production in the United States in 2014 is more dependent on the actions of the Obama regulators and environmentalists than on U.S. oil and gas supply. Even if one were able to forecast U.S. oil production with a great deal of precision, this information would have little bearing on the price of gasoline at the pump, because that price is largely determined by global supply and demand — and fear. What would happen to the

global oil price if terrorists sunk an oil tanker in the Persian Gulf?

Some forecasters have a few good years, but even the best are often wrong because there are so many unknowns that cannot be quantified with much certainty. I am reasonably confident in saying the world is headed for a major financial crisis, because the numbers show that most large economies are projected to further increase their debt-to-gross domestic product ratios this year, which are already at record-high global levels. However, I cannot forecast with a high probability (nor do I know others who can) when this financial crisis will occur.

A forecast that the world will have a new major financial crisis is really a forecast that the world's political leaders are incapable or unwilling to make the necessary changes to avoid the crisis (e.g., substantially reducing government spending). If a new Margaret Thatcher or Ronald Reagan suddenly came forward, or if current leaders of major countries decided to make the necessary changes, my forecast of the crisis would become less likely.

Will President Obama's miserable poll numbers cause him to rethink his economic policies and move toward pro-growth rather than redistributionist policies? To assess that probability, one might better consult a psychiatrist rather than an economist. Can the psychiatrist give a number that can be plugged into an economic model?

Finally, if there is a very broad and deep consensus about the future, that consensus will change many people's actions to both take advantage of the expected gain or to avoid the expected loss — making the forecast less accurate. Consequently, if you are forced to make a forecast, give a number and a date, but never in the same sentence.

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