



Officialdom's 'Fatal Conceit'

BY RICHARD W. RAHN

GOVERNMENT FORECASTERS PREFER
ACCEPTABILITY OVER ACCURACY

Few express opinions different from what they are paid to say, and such is equally true for those who work for government. On an almost daily basis, the world is treated to presidential spokespeople denying what most people understand to be true.

Last week, Jason Furman, President Obama's chief economic adviser, who used to have a reputation as a competent economist, embarrassed himself by trying to deny — in response to a Congressional Budget Office report — that the president's proposal to increase the minimum wage would cost jobs. Many on the left, including some economists, pretend that the law of supply and demand does not fully apply when it comes to wages. All will admit, however, a \$100 an hour minimum wage would be a huge job killer. So what they are really saying, without admitting it, is the political advantages of supporting a smaller increase in the minimum wage outweigh the economic cost, which will primarily be borne by young people and the least skilled (who tend not vote in the same numbers as those who might benefit).

Many of those advocating a higher minimum wage are the same folks who correctly claim that higher taxes on tobacco will reduce smoking over time and argue that higher taxes on carbon will tend to reduce such emissions over time. If higher prices for smokers and carbon emitters change behavior and result in less tobacco and coal being produced, why would not higher labor costs result in fewer workers being hired?

All too many professionals are willing to ignore empirical evidence when it conflicts with their beliefs or those of their employers. Perhaps in no place do we see greater evidence of this than in the field of climate science. Most climate scientists are hired directly or indirectly (i.e., through grants to the institutions that employ them) by governments. A climate scientist whose research showed that climate change is normal and proceeding at a rate that poses no danger to mankind would most likely be excluded from future funding. The political class tends to only spend taxpayer monies on things that directly benefit them or expand their power. During the past three decades, global temperatures have changed more slowly than predicted by 95 percent of the models. There was an 18-year period of global warming, but there has been a standstill in global temperature rises for the last 17 years.

If the climate scientists who produced all of these grossly defective, predictive models had been employed by private companies that depended on the accuracy of their predictions, they would have been fired, or at least sent back to start over again. Trying to track all of the things that can affect climate — or the economy — in a model is an extraordinarily difficult, if not impossible, task. Private economic forecasters who are consistently wrong tend to lose their credibility and at least some of their income.

There is one group of economic forecasters, though, who suffer very little loss of prestige or income, even though they may often be wrong. They are those who work for

the Federal Reserve and other government agencies. The press, out of ignorance or laziness, gives far more coverage and prestige to the "official" forecasts of government agencies than to nongovernment forecasters, many of whom have far better forecast records.

Last week, the Federal Reserve released 1,865 pages of transcripts of its private policy meetings from 2008, the year of the financial crisis. Among the things these documents reveal is that members of the Fed did not understand what was going on with the economy as well as many private analysts and, as usual, were late to react. The members of the Fed also had strong disagreements with each other about the state of the economy and what actions they should take. None of this is particularly surprising, but it should serve as another warning about giving government too much power.

When people take positions in government, they neither become smarter or wiser, but people with power often develop a "fatal conceit" (in the words of F.A. Hayek) that they "know" things they do not know.

The British "Met Office" is responsible for weather forecasts in Britain and has been a promoter of the global warming thesis. In November, the Met Office predicted much drier than normal winters for Britain because of global warming. Instead, Britain has just suffered the wettest winter since records have been kept, resulting in widespread flooding and several deaths. Fatal conceit?

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