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Is the Dismal Science Really a Science?

Some macroeconomists say if we just study the numbers long enough we'll be able to design better policy. That's like the sign in the bar: Free Beer Tomorrow.

By **RUSS ROBERTS**

For an economist, these are the best of times and the worst of times. We live in the best of times because everyone wants to understand what happened to the economy and what's going to happen next.

Is the mess we're in a market failure or a government failure? Is the stimulus plan working? Would tax cuts for small business spur employment? When will the job market improve? Is inflation coming? Do deficits matter?

So many questions and so little in the way of answers. And so it is the worst of times for economists. There is no consensus on the cause of the crisis or the best way forward.

There were Nobel Laureates who thought the original stimulus package should have been twice as big. And there are those who blame it for keeping unemployment high. Some economists warn of hyperinflation while others tell us not to worry.

It makes you wonder why people call it the Nobel Prize in Economic Science. After all, most sciences make progress. Nobody in medicine wants to bring back lead goblets. Sir Isaac Newton understood a lot about gravity. But Albert Einstein taught us more.

But in economics, theories that were once discredited surge back into favor. John Maynard Keynes and the view that government spending can create prosperity seem immortal. I thought stagflation had put a stake in the heart of this idea back in the 1970s. Suddenly, he's a genius once again. F.A. Hayek, Keynes's more laissez-faire sparring partner, is drawing interest. There are various monetarists to choose from, too. Which paradigm is the "right" way to think about the boom and the bust? Or are they all wrong?

I once thought econometrics—the application of statistics to economic questions—would settle these disputes and the truth would out. Econometrics is often used to measure the independent impact of one variable holding the rest of the relevant factors constant. But I've come to believe there are too many factors we don't have data on, too many connections between the variables we don't understand and can't model or identify.

I've started asking economists if they can name a study that applied sophisticated econometrics to a controversial policy issue where the study was so well done that one side's proponents had to admit they were wrong. I don't know of any. One economist told me that in general my point was well taken, but that his own work (of course!) had been decisive in settling a particular dispute.

Perhaps what we're really doing is confirming our biases. Ed Leamer, a professor of economics at UCLA,

calls it "faith-based" econometrics. When the debate is over \$2 trillion in additional government spending vs. zero, we've stopped being scientists and become philosophers. Do we want to be more like France with a bigger role for government, or less like France?

Facts and evidence still matter. And economists have learned some things that have stood the test of time and that we almost all agree on—the general connection between the money supply and inflation, for example. But the arsenal of the modern econometrician is vastly overrated as a diviner of truth. Nearly all economists accept the fundamental principles of microeconomics—that incentives matter, that trade creates prosperity—even if we disagree on the implications for public policy. But the business cycle and the ability to steer the economy out of recession may be beyond us.

The defenders of modern macroeconomics argue that if we just study the economy long enough, we'll soon be able to model it accurately and design better policy. Soon. That reminds me of the permanent sign in the bar: Free Beer Tomorrow.

We should face the evidence that we are no better today at predicting tomorrow than we were yesterday. Eighty years after the Great Depression we still argue about what caused it and why it ended.

If economics is a science, it is more like biology than physics. Biologists try to understand the relationships in a complex system. That's hard enough. But they can't tell you what will happen with any precision to the population of a particular species of frog if rainfall goes up this year in a particular rain forest. They might not even be able to count the number of frogs right now with any exactness.

We have the same problems in economics. The economy is a complex system, our data are imperfect and our models inevitably fail to account for all the interactions.

The bottom line is that we should expect less of economists. Economics is a powerful tool, a lens for organizing one's thinking about the complexity of the world around us. That should be enough. We should be honest about what we know, what we don't know and what we may never know. Admitting that publicly is the first step toward respectability.

Mr. Roberts is a research fellow at Stanford University's Hoover Institution, professor of economics at George Mason University and a distinguished scholar in the Mercatus Center.

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