

There's Always Another Awful Policy to Try

- Mises and Liberty speech by Lew Rockwell from 1998
 - (quote from article re: positivism)
- The Austrian criticism of positivism is that there is no way to perform a controlled economic experiment—there are always a huge number of confounding factors
 - Confounding factors can cause things to go the “wrong” way, such as minimum wage increases in an inflationary economy
 - Subtle measurement errors (e.g., just looking at restaurants that survived policy X) can confuse results
- That's why the Austrian school focuses on a priori theory
 - Logical, causal theory provides a framework to understand the effects of policy in isolation
 - E.g. price ceilings lead to shortages
- The positivist method is too enamored with esoteric statistical aggregates
- If you take a vast body of data and run it through a few thousand statistical “tests,” odds are you will find some apparent correlations
- Plus you can create new statistical “tests” that are even further divorced from reality but give favorable answers
- The problem with the ubiquitous 95% confidence interval is that you might try over 20 different “tests,” to the point where one of them is likely to give you a false positive, because confidence intervals are calculated for each test independently
- Tests that give favorable results more often are more likely to be frequently used
- Complicated mathematical tests can often be used to make results more obscure, harder to test, and more difficult for laymen to understand
 - For example, linear combination models (imagine an entity 20%x, 30%y, 20%z, 30%a...)
 - In such models, there's no “thing” that's actually tested, and possible emergent or unique issues cannot appear
- Setting overcomplicated statistical analysis aside...
- Theory can always be parsed more and more finely
 - Maybe price controls are bad for X, but what about A, B, C...
 - There is a practically unlimited number of stupid policies to try
 - Some fraction of stupid policies tried will be confounded by economic complexity and *appear* to work, leading to more experiments along the same line
 - Bad policies can be designed to hide or obscure their negative effects by spreading those effects out over time or into unmeasured or hard-to-measure metrics
- Policies can be tried with minuscule differences
 - “Not real socialism” – it was state ownership of industry, no, state control but not ownership, no, state ownership of the land and highest-order producers' goods only...
- In a complex economy, there are roundabout processes that take time, and the result of interfering with them will not become apparent until much later
 - Easy way to obscure the results of policy—claim the two things happened “too far apart”
 - Can also separate and obscure numerical effects—e.g., spending happens before inflation (GDP)
- Conclusion: The logical, causal methods of the Austrian school are necessary to avoid perpetual destructive fiddling with policy
 - Control freaks will always have something else they want to “try,” no matter how absurd
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