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Why Economists Don't Know the Economy and How to Profit From Understanding It

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From their heavenly residences economists tell us that a market economy tends to "allocate scarce resources optimally". Yet anybody with real world experience sees inefficiencies everywhere in the economy.

This mismatch is easily explained: economists are dead wrong, and their sophisticated mathematical modeling may be useful for impressing those who do not understand it but useless when you need a reliable economic forecast to take an important decision.

This inability to make a reliable forecast proves that economics today is just an empty intellectual pastime. It does serve, however, for finding an occupation for economists pretending they understand the economy, and it is positive too for the many who are convinced that economists understand the economy, as they are reassured that such an important topic is in the hands of experts, and somebody is at hand who knows how to avoid economic crises or how to quickly exit from them.

In the past the same optimistic attitude comforted those who were convinced that village sorcerers were capable of solving all important problems, such as getting rain from the sky.

Today most are informed that sorcerers cannot really make rain fall, but few are aware that economists do not understand the economy.

The problem is they believe that consumption is limited simply by the growth of the production sector, and miss the fact that when production grows too rapidly, another limit takes precedence: man's uneasiness at changing his consolidated way-of-life too rapidly.

Marketing people know that new products need time to overturn old habits, but when weak sales do not bring profits to a fast expanding manufacturing sector, economists fail to connect this sad development to that simple marketing know-how and go fishing for convoluted explanations within the tremendous complexities of today's economic-financial system.

This human reluctance to change consumption habits at the same speed as engineers manage to raise labour productivity has the obvious effect of decreasing the number of productive workers, farm workers or blue-collars, but also the far less obvious one, of producing a compensatory increase in unproductive "service sector" workers, whose income, by the way, forms a useful support for sales.

These unproductive jobs are engendered by psychological pressure from the job seekers: an outcome that will be easily understood by sociologists and people with some understanding of human psychology, but which will seem impossible to those convinced that market competition forces everyone to be quite efficient and avoid unnecessary costs.

Yet market pressure becomes irrelevant if all competitors incur the same unproductive costs, as when compliance-creating norms work equally for all companies.

But the greatest cost equalizers are inefficient working ways that are equally diffused in offices by imitation or fashion. We have a glimpse of the inefficiency they create when a big company in trouble is forced to cut many white-collars, yet remains able to operate and returns to profit.

Let's ask ourselves: why was the company paying the now dismissed workers before? Typically those inefficiencies were connected with acritical acceptance of slogans such as "if everybody is doing it, it must be ok", "the more technology, the more efficiency", "new means better"… which substituted critical evaluations.

I can't speak ill of these slogans as they help to create many jobs that are unproductive but useful for the functioning of social and economic life: today's economies couldn't function if these income-distributing inefficiencies were eliminated.

But if inefficiencies today are so embedded in attitudes, then a company could improve itsposition simply by recognizing and avoiding some of them.

Four pieces of advice for the CEO.

First. As the trend is toward increasing inefficiency, to be efficient one must avoid popular choices generally reputed to be quite logical, whose only effect is to fill the social role of creating unproductive jobs. To obtain results better than the mass, nonconformist choices must obviously be made.

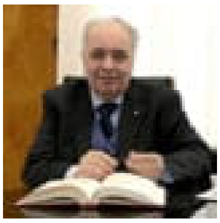
Second. So, avoid hiring conformist managers, often recognizable because they look good.

Everyone has a limited amount of energy, therefore if so much is invested in looking good, there was probably little left to develop professional competence.

Third. Look suspiciously on not yet mature technologies suddenly becoming popular: they are typical generators of unproductive work. Remember the first PC networks?

Fourth: if you find this too vague, read my book, The Imaginary Economy. I cannot guarantee it, but it might give you some ideas…

Have you read?



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