

Can Economists Predict the Future? Hardly.

Economists predict the future course of economic events to show we have a sense of humor. If we could do so accurately, we'd all be very rich, and we're not; we're comfortable, but not fantastically rich (except in our enjoyment of the dismal science).

Why can't we predict the future? Because the world is a complicated place, and millions of things are occurring at once. For example, we know that if nothing else changes, and the government increases the money supply, price rises will be the inevitable result. But we can never rely upon the *ceteris paribus* (all else equal) assumption that this will be the only alteration in the economy. People might stop buying as much as before, saving for a rainy day. If so, the tendency for more money chasing the same amount of goods and services to instill price rises will be somewhat ameliorated.

By how much? That all depends upon the rate of decrease in buying, and we have no crystal ball on that one. We can't even determine if the Fed or the central bank will increase the stock of money in circulation. The future course of [inflation](#) depends upon what side of the bed Fed officials get out of, and we have no idea about that either. Quite possibly, they themselves don't know. We are fortunate to have economic law, but that only takes us so far.

Consider another example. Economic law tells us that an increase of the level at which the minimum wage is pegged will increase unemployment of low skilled workers, provided that nothing else changes. But things are forever changing. It is quite possible that as the minimum wage rises, an innovation will come along that increases the productivity of unskilled workers. If so, if this force is powerful enough, and if the

rise in the level mandated by law is modest, there might not be a single solitary laborer who becomes jobless as a result of the higher minimum wage.

At this point, I must confess, I am giving an Austrian economic perspective on this matter. Mainstream economists would not agree. According to Economics Nobel Prize winner [Milton Friedman](#) (no Austrian, he), "The only relevant test of the validity of a hypothesis is comparison of prediction with experience." That is to say, if a claim is true, it must lead to accurate predictions.

But the history of economics is a history of false predictions.

Paul Krugman is another economics Nobel Prize winner. His [1998 prediction](#) was that "The growth of the Internet will slow drastically." Ha.

There are more examples.

Irving Fisher [predicted](#) a stock market boom; but he made the mistake of doing so right before the Crash of 1929.

In 1968, Paul Ehrlich, author of the book, *The Population Bomb*, [predicted](#) mass starvation in the coming years. Mass obesity turned out to be a much bigger problem.

In 1987 Ravi Batra [predicted](#) The Great Depression of 1990 in his book of that title. Didn't happen.

No, I think the steadfast refusal of Austrians to engage in economic predictions is consonant with our limited powers. We can explain economic reality and understand quite a bit of it, but unless "all else is constant" which it never is, we cannot predict, at least not qua economists.

Intellectual modesty is of great value.

Do I predict that one day mainstream economists will come to

see the error of their ways in this regard? I hope so, but, as an Austrian economist, I make no predictions either way.

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