

[On business cycles and economic engineering](#) [1]

Written by [Sam Bowman](#) [2] | Tuesday 7 August 2012

I've made no secret of my love for LearnLiberty's videos before (among other things, they've saved me once or twice when I really couldn't think of anything to put on the blog the next day), but this series of videos may be my favourite. With each one spending about five minutes on one of the key theories of the business cycle, they're essential viewing for anybody interested in where we are and how we got here. It might be a little much to hope that our rulers would be able to give a rudimentary outline of these theories without having watched these videos, but for the one or two who were dozing in class that day, these should still be useful.

I tend to think of these theories as stories that can tell us a bit about business cycles: one may be able to tell a great deal about a particular cycle and very little about another; two may together be able to tell us everything we need about a certain cycle; and we may not have a good story to tell at all about some cycles. For my own part, I find the Austrian school emphasis on capital malinvestment and liquidation during the bust especially compelling, which may be influenced by the fact that I grew up in Celtic Tiger Ireland. But I try to keep an open mind? I think there are some important compatibilities between Austrian and parts of Real Business Cycle Theory, and I find the Monetarist theory of the bust fascinating.

What always strikes me is how uncertain all of this is. There are smart, sane, informed economists in each 'camp', and many in no camp at all. Yet politics has demanded that economists provide one grand answer to our problems, as if the book is closed and the questions are settled. (Harry Truman famously asked for a one-armed economist who couldn't answer his questions with, "Well, on the other hand...".) Some economists have obliged them, offering superficially easy, get-rich-quick schemes to 'end this depression now', and they're celebrated even if their area of technical expertise isn't where they're now giving out free advice.

It would be nice if more politicians would realize that the economy isn't a straightforward engine that just needs the right engineer, but a highly complex spontaneous order that may give surprising and unpleasant reactions to well-intended stimuli. The economist who, to quote Hayek, 'demonstrates to men how little they really know about what they imagine they can design' may never be as popular as the one who offers the no-fail solution. But I hope they keep pointing it out until someone in charge starts to listen.

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