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The Excel Trap [1]

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Microsoft?s Excel spreadsheet is a wonderful tool, beloved by analysts, economists and policy wonks of all stripes. Load in a bunch of data, run any number of calculations and a conclusion is virtually instantaneous. Change a variable and anybody can make just about any prediction they want. But Excel is no substitute for proper out-of-the-box thinking; it can?t capture all the world?s complexities.

The Financial Times fell into this trap on Friday with a story headlined ?Migrants cap will raise taxes and cut growth.? (Not ?may? but ?will?.) Using the new Office for Budget Responsibility?s (OBR) forecasting model (presumably an Excel spreadsheet), the FT adjusted some variables to reflect the prime minister?s election pledge to bring net immigration down to 1990s levels. Result? Reduced output of 1% and £9 billion of foregone tax revenues.

Quite obviously, the FT concludes, ?Chancellor George Osborne will have to fill this fiscal hole in the emergency budget if he is to live up to his promise to accept the OBR?s forecasts when framing government spending.?

How elegant if life were that simple - but it isn?t. A couple of days earlier, the latest UK employment statistics revealed some 8.2 million Britons are out of work and not seeking employment, including some 2 million on long-term sick leave.

Surely it?s not beyond the imagination of the new government to replace the couple of hundred thousand ?lost? immigrants with home-grown talent from this pool of 8.2 million non-workers. Indeed, this would have a double positive effect on the budget ? creating new taxpayers while reducing the number of claimants to the state?s largesse.

As the government?s budget cutting gets underway, expect a lot more of this kind of one dimensional analysis as all the country?s special interests unleash the power of Excel.

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