Economic BS Detector

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Original link

People are trying to lie to you. Or maybe they just don't know what they're talking about. Either way, you shouldn't listen to them. But how can you tell? Here's a guidebook of key phrases that indicate someone doesn't know what they're talking about when they talk about the economy:

Creates/destroys jobs. You often hear men of business saying that their company "created" 2000 new jobs. And in some sense that may be true, but it's probably less exciting if it turned out that they did it by destroying 2000 jobs somewhere else.

The same is true for economic policy in general; it will typically create jobs in one place, but only at the expense of losing them somewhere else. That's because the number of jobs (i.e. the unemployment rate) isn't just a free-floating fact of life; it's specifically controlled by the Federal Reserve.

The Federal Reserve is a cadre of bankers and economists that, among other things, meets regularly to decide interest rates. When there are too few jobs, they lower interest rates, making it easier for people to borrow money and start new companies, hiring new people and creating jobs. (The current crisis is the rare exception — interest rates are at zero and there still aren't enough jobs. Thus the stimulus package.) When there are too many jobs, they raise interest rates, making it harder for businesses to start and expand, and cutting back on jobs.

Wait, too many jobs? The Federal Reserve worries that if unemployment gets too low, we'll hit a cycle of accelerating inflation where prices spiral up and up. Critics argue that they actually don't like low unemployment because then businesses have to compete for employees, which means they have to pay more and give out nicer benefits. So, critics argue, they try to leave some unemployment, so that *employees* are competing and can be pushed into taking lower wages.

If you really care about how many jobs there are — and obviously you should — then you shouldn't worry about particular policies or people, whose effects either won't matter or will be counteracted by the Fed. You should worry about the Fed and who controls it.

Helps/hurts competitiveness. Let's face facts: America isn't competing with anyone. Remember competition? You sell a widget for $5; I come along and sell it for $4; then you have to either lower your price or lose all your customers to me and go bankrupt.

But America isn't going to go bankrupt. Countries don't really do that sort of thing.

Instead, what matters for how well a country is doing is (roughly speaking) its productivity, i.e. how much stuff it makes per person-hour of work. Sometimes you can increase this productivity by working with other countries — by, for example, trading some steel for some coffee. But this is just a way to up your own country's productivity; it has nothing to do with competition.

The competitiveness bogeyman is often trotted out when someone is trying to get you to do something you don't want. "Oh, sure," they say, "you may not want to do it, but the Chinese are and they're going to eat your lunch." It just isn't so. Nothing will stop us from chugging along, eating our lunch just fine; even if the Chinese are eating two lunches.

Sadly, a lot of "economic commentators" don't know what they're talking about, so you see these phrases *everywhere*. Now that you know they're bogus, it should save you a lot of time.