Yogi Berra once noted, “If you don’t know where you are going, you will wind up somewhere else.” A corollary to that is, “If you don’t know why you are going, it won’t matter when you wind up somewhere else.” [Either way, you may end up believing that P-E-T-R-O-L spells water](http://www.youtube.com/watch?v=2EHDBJFoZL4).

The problem with macroeconomic policy (whether handled by Congress, The President, or The Federal Reserve) is that they don’t know where the economy currently is, don’t care why it is there, aren’t sure where the economy is headed, and can’t explain why where they want the economy to go is better than where the economy wants to go on its own. Okay, so that is really four problems. Let’s examine each one in turn.

Where is the economy today? The only way to answer that correctly is to be omniscient, which policy makers are not. The best they can do is to collect data, which takes time. Collecting data for an economy with an annual output over $14 trillion is not an exact science. Still every month we get updates on inflation and unemployment numbers. While we don’t know what unemployment is today, we have a good idea what it was a month and a half ago. GDP numbers come out even less frequently than that. What was GDP for January? The government won’t give its first estimate until late April and even then they will keep revising it until June.

Why is the economy here? All too many policy wonks ignore this question altogether. If, for instance, the last recession was caused when consumers and businesses became so indebted that they had to pull back on current consumption and investment; the solution couldn’t possibly be to force them to take on more debt via the government. Yet, if you ignore the why question, the knee-jerk reaction is to say (in a Pavlovian way) if people aren’t buying enough stuff, we need to force them to buy more. In this way Congress tried to solve a debt problem by borrowing money more quickly and the Federal Reserve tried to solve an over-expansion of the money supply by, get this, over-expanding the money supply even more. It’s kind of like saying that a little crystal meth has rotted your teeth, so the solution is to take so much meth that you will reach Nirvana (in the short run). In the long run it won’t matter because you’ll be dead.

Where is the economy going? No one knows, because there is no such thing as “the economy”. What we have are trillions of decisions made by millions of individuals all of whom are acting on limited information. I know I’ll teach economics for the next year and build a house. That’s what I think I know (my plans could change). I have no idea what everyone else’s plans are for the next year, or how they will change in the face of changing energy prices or natural disasters. If macroeconomic policy advisors could with great accuracy predict the economic future, they would be able to make a killing in the stock market. They would also have to be able to predict subjective human actions long before individuals who actually will face the decisions are confronted by them. The stimulus package was supposed to bring unemployment below seven percent by when? Did it? Why not?

Why is the government direction of the economy better than where it would take itself? The only people who ever would think that macroeconomic policy is useful are the ones who think they know more about the actions of 300 million people than each of those individuals do. For me to advocate a certain pro Cocoa Puffs policy, I would have to know that you prefer Cocoa Puffs to Fruity Pebbles and yet left to your own devices, you would end up buying the Fruity Pebbles and screw up your own cereal purchase.

Congress, The President, and The Federal Reserve don’t care why we are where they incorrectly think we are, but are more than happy to dictate that we should go somewhere else other than where we would choose to go for reasons they do not wish to explain – which of course makes perfect sense.