Lies, Damned Lies, and Aggregates

Robert Higgs – one of our most underrated economists – wrote:

In economic theory, a high level of aggregation conceals a multitude of sins. The more removed a concept is from genuine, individual, economic choice, the more misleading it is likely to be. The highest-level aggregates, such as GDP, are almost impossible to invest with a clear meaning — not to mention the great variety of measurement problems involved in their empirical estimation.

When pressed, mainstream economists say that GDP is "just a useful index," but they can scarcely give a meaningful, straightforward answer to the question, "an index of what?" And when asked to explain how such indexes are useful, it often turns out that they are useful mainly to government planners who are trying to override and "improve" the state of economic affairs that would exist if the government simply left people alone to conduct their affairs through peaceful voluntary cooperation.

As summarized by Rocco Stanzione: "Aggregation is the distortion pedal of economics. Crank that up and you can play just about anything and people will rock out to it."

Or, as Mark Twain put it: "Facts are stubborn things, but statistics are more pliable."