If economics can't forecast a crisis then there's somet...

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As the FT notes this morning:

The Bank of England will not be able to forecast the next financial crisis or recession, one of its top officials said on Tuesday. "Our models are just not that good," Gertjan Vlieghe told MPs on the Treasury select committee.

He added that there was not "one model which is right or wrong" and that people had "unrealistic expectations of what we're going to get from economics in the next five years".

He's right: economics cannot forecast something as important as a financial crisis. But what he did not add is why not, which is down to methodology. Economic forecasts are rational mathematical models. And most assume that behaviour tends to the mean: in other words, if there isn't usually a crisis (and there isn't) then there won't be one coming up either.

Of course I simplify. We know that there are crises. We know that they happen on average every seven to eight years, and that means we're overdue for one. We know that stock market highs, increasing debt and weak economic fundamentals (wage and trade stagnation, both of which look to be on the cards) at the same time suggest fundamental imbalances that can trigger the crash. So just by standing back and using human judgement we can say the chance of there being a crisis in the next five years is very high indeed. But economics can't say that. Because it isn't programmed to do so. Which just shows how far from reality it is. And what a useless exercise conventional approaches to economics represent for society as a whole.