

The Invisible Asymptote of Economics *

The science of Economics –especially its contemporary neoclassical variety– has failed to calculate the well-being of real flesh-and-blood human beings by using monetary statistics. Of course, it would be ludicrously redundant for me to repeat here the epic history of criticism regarding this “science” from P. J. Proudhon to J. M. Keynes and beyond. So, instead I will take a different tack: an epistemological one. I here contend that economists’ claim that the “Invisible hand” of trade and market exchange functions as a kind of socially-beneficial **homeostasis**,¹ ...is bogus.

The term “Invisible hand” –invented by Adam Smith in the 18th century– refers to the unintended social improvements brought about miraculously by individuals acting in their own self-interest rather than by state interference in the economy. This idea of trade and market exchange perfectly channeling self-interest toward socially-desirable ends, is a central justification for contemporary versions of *laissez-faire* neoclassical economics.²

As I stated in an earlier essay (*Zeno’s Singularity*): “Many fatal errors can be attributed to the epistemic error that one can use the tools and mechanics efficient for one set of operations at the human level, to act upon or solve the problems of operations occurring at [another.]” In this case, to use the word “homeostasis” to describe the operations of economics is such a fatal error: Human society does not work like a thermostat.

In Antonio and Hanna Damasio’s alternative and ingenious use of the term homeostasis: “...the reality of human homeostasis expands the [use of] preferences and rational choice, ... and casts doubts on economic models that depend only on an ‘invisible hand’ mechanism... When homeostatic regulation is enriched by feeling/conscious interfaces, adaptability increases at the risk of basic efficiency. The system becomes too open to new possibilities. When [human beings introduce] a conscious/feeling regulatory interface, they introduce a higher degree of uncertainty in the regulation which results in less predictable and potentially less advantageous responses. The fallibility of the decision-making apparatus increases.”³

In the opinion of various prominent thinkers who spoke at an international conference organized by the OECD in 2018, the dominant school of economic thought prior to the crisis of 2008 essentially saw the economy as a **machine** that could be modelled and understood using general equilibrium models and representative agents behaving rationally to maximise value. This machine almost always operated at its optimal speed, producing outputs in an almost totally predictable, linear way, under the close control of its policy operators, unless it was hit by external shocks....

The crisis of 2008 discredited the analyses based on this view and the policy advice it generated. It illustrated the inability of the economic system to guarantee inclusive, sustainable growth. It exposed the failure of economics to understand profound changes in the global economy. It revealed policymakers’ incapacity to prevent the financial crisis from mutating into a recession and giving rise to a political and social crisis. It also showed that the benefits of economic growth do not trickle down automatically. Expansion was characterised by growing inequalities of income, wealth and opportunities. Our economic system has been producing and perpetuating social disparity for decades, and inequality has widened since the crisis. Many years later, what have we learned? What went wrong in 2008?⁴

In the case of Canada, a portrait of the economy, prepared by Statistics Canada, uses a set of predetermined statistical indicators –generally expressed in Canadian dollars– such as: gross domestic product, consumer price index, merchandise trade imports and exports, retail and manufacturers’ sales, etc. Other indicators used are: employment –expressed by number of persons– and unemployment rate –expressed in percentages. Its economic updates are announced on a monthly basis. The Bank of Canada announces the rise or fall of interest rates after analyzing the above indicators and their impact on stability, inflation or recession. Ultimately, it is the Department of Finance which manages federal finances, including budgeting, taxation, and debt management. It is responsible for developing and implementing economic and fiscal policies after surveying a group of private sector economists. The average of private sector forecasts is used as the basis for preparing the Federal Budget. ⁵

Having considered all of the above, I therefore conclude that: (1) ...the simplicity of the mechanical function of a thermostat cannot be compared to the multidimensional complexity of socioeconomic behavior –even in a small town– because of the added factor of many disparate human consciousnesses reacting minute-by-minute to available economic data –whether wisely or misguidedly; (2) ...our government, using the disparate processes listed above, and relying only on random surveys of private sector economists, can never arrive at an accurate snapshot of the scale of human misery caused by sociopolitical events such as financial market crises, stagflation, a meteoric rise in the cost of living, poverty, unemployment and/or homelessness. (3) ...no state or society today, no matter how progressive or well-organized, can regulate its economy or evaluate its performance, existing as it does in a world with a globalized market run by powerful multinational actors, without falling victim to the “Butterfly Effect,” ⁶ where one flap of preferred stock paper in one exchange, can create a financial tsunami that crashes multiple stock exchanges in different continents for decades.

* Written by © Pascual Delgado, May 16th 2024

¹ In biology, **homeostasis** is the state of steady internal physical and chemical conditions maintained by living systems, and the condition of optimal functioning for organisms. The term is usually applied to technological control systems such as thermostats. <https://en.wikipedia.org/wiki/Homeostasis>

² https://en.wikipedia.org/wiki/Invisible_hand

³ Damasio, Antonio and Hanna –“Exploring the concept of homeostasis and considering its implications for economics,” Journal of Economic Behavior & Organization, Volume 126, Part B, June 2016, Pages 125-129. <https://www.sciencedirect.com/science/article/pii/S016726811500325X>

⁴ Organisation for Economic Co-operation and Development (OECD), Conference “10 Years after the crisis” –September 13th 2018. <https://www.oecd.org/naecc/10-years-after-the-crisis/>

⁵ <https://www150.statcan.gc.ca/n1/pub/71-607-x/71-607-x2023022-eng.htm>

⁶ Phrase coined by Edward Norton Lorenz in 1972 that “...a butterfly flapping its wings in Brazil can produce a tornado in Texas.” <https://www.bbvaopenmind.com/en/science/leading-figures/when-lorenz-discovered-the-butterfly-effect/#::~:~:text=>