

The *Goodhart* Rule

Worthwhile goals that don't pan out.

BY MERRICK CAREY

In March 2021, *Bloomberg BusinessWeek* published an essay on economist Charles Goodhart's 1975 law that "any observed statistical regularity will tend to collapse once pressure is placed upon it for control purposes."

The examples cited in the Bloomberg article are interesting, but they are mostly through a regulatory and microeconomic prism. The most important use of Goodhart's law might be in targeting public policy goals. What happens when a giant nation like America, with a gargantuan public sector, decides to focus on such a goal?

In its article, Bloomberg notes the 2 percent inflation goal the Federal Reserve Board, and other central banks, have been targeting. And of course, that target has been shredded in 2021 as the Fed pushed on it so hard that we're experiencing inflation rates three times as high. Now the goal will be the reverse: to get down to 2 percent inflation, rather than up to 2 percent. And the Federal Reserve's massive efforts on the way up may make coming back down a long, painful fight.

Another example of Goodhart's Law applied to public policy might be what happened to America's housing sector in the early twenty-first century. As a society, we decided to target dramatic increases in homeownership starting after World War II, escalating in the 1990s and early 2000s. The full force of the federal government (and many state and city governments) was brought to bear on this seemingly indisputably good idea. And the housing market collapsed in 2008, taking down the rest of the economy with it. The premier homeownership lending agency, Fannie Mae, drove the power of Washington right into the center of the housing boom, and then its collapse.

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THE INTERNATIONAL
ECONOMY

THE MAGAZINE OF INTERNATIONAL ECONOMIC POLICY

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Millions of students get saddled with crippling debt with above-market interest rates, setting them way back in their lifetime goal of financial success. Many of those students don't even graduate from college, yet still hold that debt.

As a society, we push as many people as possible to get a college degree. Statistics demonstrate that if you obtain a college degree, you will likely make more money. Again, a huge federally backed apparatus rushes in to provide loans to eager students and their families wanting to get ahead, while federal and state governments also pour billions into colleges and universities for every imaginable field and study. And what happens? Millions of students get saddled with crippling debt with above-market interest rates, setting them way back in their lifetime goal of financial success. Many of those students don't even graduate from college, yet still hold that debt. And during recessions, they get creamed. Now the taxpayers have been called in to bail them out, just as they did in the housing collapse, while the value of a college degree dissipates in this education inflation, and many colleges and universities are closing.

In the second half of the twentieth century, it became the explicit goal of many nations to limit population growth. Paul R. Ehrlich's *The Population Bomb* (1968), which predicted imminent worldwide famine as a result of overpopulation, became conventional wisdom in America and throughout the developed world. This resulted in a wide

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range of extremely effective population planning measures taken across diverse nations.

By now it is all too clear that the population planning initiative was too successful. China rescinded its infamous one-child policy in 2015, but the birthrate didn't budge. The world's most populous nation is facing imminent demographic decline at a rate that will adversely affect the prosperity that the earlier Chinese population planning actions attempted to secure.

China isn't alone in this. Below-replacement fertility rates are a feature of essentially every developed nation in the world. In America, baby boomers are retiring *en masse*. Governments, from Italy to Japan to South Korea to America, are scrambling to figure out how their ever-diminishing working population will support the ever-increasing tax burden caused by their ever-increasing retirees. Interestingly, America may have tripped across one partial fix to this problem as restrictions on abortion are proliferating in the decentralized United States.

As our society comes to various "indisputable" goals that must be achieved, and the full force of the federal government and its regulatory and taxing powers take aim, we

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might want to second-guess the conventional wisdom, knowing unintended consequences and worse could be just around the corner. The next example might be certain environmental goals, which have taken on an almost religious fervor in the twenty-first century. What could go wrong if we decide that mankind needs to drive Earth's future estimated temperature lower, and direct the federal government and international community towards that goal? What could go wrong if we as a society have decided that electric vehicles are the positive good of the coming decades, and we set out to neutralize the internal combustible engine, and vanquish fossil fuels?

It seems that a majority of voters, and certainly most of the people at the top of the federal government, have no doubt these environmental goals must be achieved. But Goodhart's Law would advise us to catch our breath, take a step back, and reassess when a public policy consensus like this takes hold. ◆