SHELL SHOCK

STEVE DAVIES on the dangers of false comparisons – and why you should always compare eggs with eggs

The collective public conversation is full of debates about whether some institution or practice, or even the entire social and economic system, is good or bad, functional or dysfunctional. Above all, there are arguments about whether things judged to be bad can be improved.

This by itself is a good thing. It is only by holding ways of doing things up to judgment and suggesting improvements that any change for the better can happen. (This, by the way, is a very modern way of thinking, which was rare before the modern age).

Yet debates of this kind are often unproductive. Things that are flawed but functional are too often cast aside and replaced by things that do not work as well.

The main reason is the malign influence of the Nirvana Fallacy. It has been around for a long time but was first clearly identified and given its name in 1969, in a famous paper by the UCLA economist Harold Demsetz.

The essence of the fallacy is this. One of the participants in an argument compares the existing real-world institution or practice that is being discussed to an ideal, imaginary and perfect alternative rather than to an alternative that actually exists or might realistically come to exist.

In other words, the actual is compared to the ideal. The actual real-life case is then criticised because it fails to measure up to the ideal alternative.

The problem is that you are not comparing like with like. It can be perfectly appropriate to compare two utopias or supposedly ideal states of affairs where everything works as intended (in political philosophy for example). This can help to clarify differences of principle or foundational assumption.

But when looking at the real world and trying to make sense of it, you must compare the actual with the actual. Only then can you make accurate judgments about which of the two real world examples works better, or is better, at reaching an agreed goal (such as the reduction of poverty).

Demsetz described this approach as "comparative institutional analysis". What you should not do is compare the imperfect or second-best real-world situation with an ideal and perfect but imaginary alternative. That is, you should not compare messy real-world options with Nirvana.

There are many examples of this fallacy, particularly where debates about economic institutions are concerned.

The most obvious are cases where the real world of predominantly capitalist or free-market mixed economies are contrasted with an ideal alternative economic and political order.

One very common phenomenon is to compare capitalism and its consequences and effects to an ideal socialist world. The question you should always ask when this happens is: "compared to what?".

For example, criticisms of the wages and employment practices in sweatshops usually assume that the alternative is high wage employment with the kinds of working conditions and regulations found in developed economies.

In the real world, that is not actually an alternative. The actual alternative is something like scratching a living on a refuse dump, or being a prostitute or street criminal, or living as a subsistence farmer.

There are equally annoying people on the free-market side. They compare a social democracy or mixed economy to an ideal laissez-faire capitalist economy with minimal government where everything works perfectly. This is just as bad an argument.

In both these cases, real world examples are dismissed with the airy remark "oh that's not real socialism/capitalism". This makes proper debate and comparison impossible.

What you need to do is compare cases that are either both in existence or are realistic and feasible.

The 'comparative institutional analysis' approach would compare current capitalism with 'really existing socialism' or different kinds of mixed economy with each other, or a realistic picture of a market economy with actual social democratic ones.

WHEN LOOKING AT THE REAL WORLD AND TRYING TO MAKE SENSE OF IT, YOU MUST COMPARE THE ACTUAL WITH THE ACTUAL

In fact, the Nirvana fallacy has come to corrupt economics in general.

In most school and university courses, the reality of market economies is compared to the ideal alternative of perfect equilibrium, with departures from that described as "failures".

What is needed is to compare actual institutional solutions to real world challenges and see which ones work best (or least badly).

The fallacy also happens in everyday life, when you compare your actual partner or job or home to a perfect alternative rather than to an actually plausible one.

The results of this error can be bad at a personal level but, at the societal or policy level, they can be catastrophic.

As Voltaire observed, the perfect is the enemy of the good. This is something to bear in mind in both academic debate and personal life•

Dr Stephen Davies
Head of Education
Institute of Economic Affairs
sdavies@iea.org.uk