**Mitchell's Musings 5-27-13: Change is Hard or False Positives from a Negative**


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About a month ago, I mused about the appeal of austerity at the macro level. Macroeconomic policy in parts of the world – particularly in the euro-zone – has tilted toward belt-tightening austerity which makes an already soggy economic condition worse.[1] Why are such painful policies being followed? One answer, I suggested, was a fallacy of composition coming up from the micro level.[2] It is rational for individuals and households to cut back expenditures during recessions since they are threatened with unemployment and lost income. But collectively, such cutbacks exacerbate the situation. The same is true for local jurisdictions such as states and municipalities within the U.S. A downturn cuts back on their tax revenue and, since state and local governments cannot create money, they must trim their spending – again exacerbating the economic situation. Firms also rationally cut back on investment and production in the face of these reductions in demand by individuals, households, and state and local governments.

It is very difficult for individuals and business executives to get away from the idea that since they are tightening their belts, the central government should be doing the same. The idea that what makes sense individually does not make sense collectively has proven to be a tough sell. Thus, the only macro actor in the U.S. at present that is actively trying to stimulate the economy is the Federal Reserve, an agency which is somewhat insulated from politics. And even the Fed has to keep reassuring the Congress that once it is sure the recovery is solid, it will cease holding down interest rates.

A seemingly-unrelated event has suggested to me that there may be even more to the micro pressure for austerity than just a tough-to-overcome fallacy of composition. I have long followed the radio broadcasts of comedian Harry Shearer which originate at our local Santa Monica public radio station, KCRW. A few weeks ago, Shearer's program – Le Show – was abruptly taken off the air by the station, although it was continued as a podcast while paradoxically being sent to other stations around the country that have continued to broadcast it. When local listeners protested the decision to drop the program, they received a response from the station manager saying that "*change is hard*." [See http://www.youtube.com/watch?v=iBMbHUHxSGc.]

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[1] http://www.employmentpolicy.org/sites/www.employmentpolicy.org/files/field-content-file/pdf/Daniel%20J.B.%20Mitchell/MitchellMusings%204-29-13.pdf

[2] The fallacy of composition is the fallacy of inferring from the fact that every part of a whole has a given property that the whole also has that property. Source: http://www.logicalfallacies.info/relevance/composition/.

The idea that "*change is hard*" is a variant on "*no-pain/no gain*" and numerous other bits of folk wisdom. Within firms and organizations, imposed changes often are hard and do cause pain. Mergers, downsizing, introduction of new technology, and other changes in policy implemented at the top, all cause discomfort and resistance of varying intensity. It is worth noting, however, that the discomfort falls on those who are the *recipients* or targets of the change, typically rank-and-file employees. The discomfort may also extend up to management executives lower in the hierarchy than those at the top who are decreeing the change.

For those at the top, change may not be hard at all. Indeed, there may be rewards for change. And even if there are no explicit rewards, a top manager who simply continues the *status quo* – even if all is well – might ultimately be seen as uncreative. If anything, therefore, change at the top may be seen as a necessity, even if no change is actually warranted. Incoming top managers are especially subject to pressures to change things in order to show they have new ideas.

Folks in the medical area will be familiar with the idea that tests for diseases sometimes yield "false positives." That is, such tests may - with some frequency - suggest the presence of disease where none exists. Similarly, use of the "*change-is-hard*" idea in the organizational context risks producing false positives. Even if change *is* hard, there is nothing in that observation that differentiates good change from bad. Rationalizing after the fact that a decision to impose a change was needed because it produced pain and resistance can easily lead to a false positive. At best, the pain and resistance are necessary, *but not sufficient*, conditions for demonstrating the implementation of a good change.

The common use of *change-is-hard* as an indicator of good change can easily translate into the misleading idea that if we observe any circumstance where pain is being felt and complaints are being heard, change for the good is therefore underway. Moved to the macro level, the *change-is-hard* idea seems to suggest that because the Great Recession was deep and because the recovery is slow (and painful), underlying the process is a necessary and good change. In short, there is a natural, but often fallacious, drift from *change-is-hard* to *hard-change-is-good-*change to *hardness-means-a-necessary-and-good-change-is-occurring*.

What we have from this chain of illogic is the ultimate false positive. Pain, a negative, is taken to be an indicator of a positive – a needed change that will eventually produce something better in the economy. In the macroeconomic context, such changes are often labeled "structural" although it is never clear why structural forces would have suddenly made themselves felt at the end of 2007. The essence of structural problems is that they are slow to develop. They don't suddenly emerge.

Call this fallacy what you will, but in the macroeconomic context – whatever you call it – the fallacy is particularly appealing to those who observe others in pain but who are not in pain themselves.