

Opening Statement
The Honorable Paul Broun (R-GA), Ranking Member
Subcommittee on Investigations and Oversight
Building a Science of Economics for the Real World
U.S. House of Representatives
July 20, 2010

Thank you Mr. Chairman.

Let me welcome the witnesses here today and thank them for appearing. Today's hearing on macroeconomic modeling continues this Committee's work on the role of science in economics. Not surprisingly, several of the topics addressed at our previous two hearings are also relevant today as we discuss macroeconomic modeling. Understanding the purpose and limitations of models is just as important in macroeconomic models as it is in financial risk modeling.

In general, modeling is also a theme this Committee has addressed several times in the past. Whether it is in regard to climate change, chemical exposures, pandemics, determining spacecraft survivability, or attempting to value complex financial instruments, models are only as good as the data and assumptions that go into them. Ultimately, decisions have to be made based on a number of variables which should include scientific models, but certainly not exclusively. As a witness at a previous hearing stated, "science describes, it does not prescribe." No model will ever relieve a banker, trader, risk manager, or policy maker of the responsibility to make difficult decisions.

This Committee struggles enough with the complexities of modeling, risk assessment, and risk management regarding physical sciences. Attempting to adapt these concepts to economics is even more complex. Despite the attempts of many to develop a scientific panacea for informing economic decisions, models are only a tool employed by decision-makers and economists. They add another layer of insight, but are not crystal balls. Appreciating this complexity, and understanding the limitations and intended purpose of economic models is just as important as what the models tell you.

We have an esteemed panel of witnesses here today who will discuss the appropriate roles and limitations of models such as the Dynamic Stochastic General Equilibrium (DSGE) model. I look forward to their testimony and yield back my time.

Thank you.

###