

A plea for pluralism by Piet Keizer (<http://www.pietkeizer.nl>)

If we want to learn from the financial and economic crisis of the last year, it is of interest to see which lessons we learnt from the crisis in the thirties of the previous century.

Dominance

In the thirties there were lively debates in economics. The crisis meant the end of the neoclassical dominance, without having downgraded this current. This pluralism continued until the second half of the eighties. From then on neoclassical thought began to dominate the scene again, thereby marginalising other schools of thought. This monopoly has decreased the heterogeneity of views so needed in the offices of firms and government agencies. In all these places the idea of the self-cleaning capacity of the system of free markets has become the dominated idea. Therefore it's not surprising that the Ministry of Finance did not resist the wave of deregulation coming from Anglo-Saxon countries, and easily adapted to it. The ruling theory says that the central bank should control the financial sector, and the experts from the central bank agreed with this view. But the central bank also underscored the idea that tough monitoring was not really necessary: badly functioning financial institutions are taken over by well functioning institutions.

Debates in the previous period of crisis

Since dominance by one approach or paradigm is impeding scientific progress, it is essential to restore pluriformity. This can be realised by retrieving the debates of the thirties. Three of them are the most important ones.

In the first place the debate between Hayek and Keynes. Hayek considered macroeconomics as aggregated microeconomics, and depressions are necessary to restore relative prices. Keynes' approach to the economy as a whole, however, is very different: economies evolve over time and human behaviour is influenced by the historical stage of development of the economy. The economy is institutionally embedded, and at every moment there might be shocks coming from outside the system. In order to survive every actor should build up buffer stocks to receive a shock – banks should be enforced by the government to do this. In case of a macro shock the government should counter it by stimulating the demand for goods, especially the public investments. The lesson from this debate should be: an economist without thorough knowledge of micro- and macroeconomics and their interrelationships cannot function well, neither in science nor in other parts of the economy.

In the second place the debate between Robbins and Parsons. Robbins was the philosopher of the neoclassical approach, and he defended the position that economics should not deal with the economy as a societal sector, but with the economic *aspect* of human behaviour. Parsons concluded that the neoclassical analysis, in order to deliver a realistic explanation of the functioning of an economy, should add an analysis of the social and of the psychic aspect of human behaviour. Then we could get more insight into the formation of (sub)cultures and of the irrationality, which play such an important role in markets and organisations (Keizer, 2009a)

In the third place the debate between Tinbergen and Keynes. Tinbergen tried to describe concrete economic processes by means of mathematical relations. He estimated macro-investment functions, for instance; one of the most unstable relationships as became increasingly clear. Keynes agreed with Knight who had stated that human behaviour cannot be understood by means of deterministic systems in the beginning of the twenties already. Our reality should be interpreted as an open system; at every moment something completely unforeseen can happen. If actors do not take this into account, systems become very fragile and unstable. Developments during the thirties and forties showed that Keynes was right: depression, social-political radicalisation and war.

Gaps in our knowledge of the economy

Three examples might illustrate nicely which theoretical problems must be addressed the next decades.

In the first place, the psychology of the actor, especially of those who are in leading positions. When the parliamentary commission which tries to detect the true causes of the crisis, commission=de Wit, asked Sweder van Wijnbergen why Wellink, president of the Dutch central bank, didn't intervene adequately, he answered: ask a psychologist! But psychologists don't answer these questions, and link personality to the content of policies. So economists must search in the field of psychology for analyses that can be used to explain why policy-makers are systematically making mistakes. (Keizer, 2009b).

In the second place, the sociology of the actors. When the commission-de Wit asked Coen Teulings, Director of the Central Planning Bureau, the same question, he answered: the monitoring agencies were 'too cosy' with those who must be monitored. They formed a subculture. All financial experts, from the controllers as well as from the controlled, belong sociologically speaking to the same group. Their common understanding of their situation was of a liberal kind: free financial markets are a stable system. If controllers work in such environment on a daily basis, is it very difficult to implement tough policies.

In the third place, a systematic neglect of liquidity risk. When the chief risk officer, and member of the Board of a large Dutch bank gave a lecture at the Utrecht University School of Economics, he told his audience that the bank had done well in all respects except liquidity management. He admitted that they had underestimated the risks of having a low level of liquidity.

A micro-econometrician is inclined to assume that all markets function well. So, if an actor is in need of liquidity he can borrow it from another actor for a short term. If an actor has an excess supply of liquidity, he can lend it to another actor for a short term. Actually holding money is a waste since it doesn't bear interest! So all actors try to minimise liquidity as much as possible.

But a true macro-economist doesn't assume that a market economy functions well. It is an open system, which means that there is fundamental *uncertainty*. Unforeseen events can occur: rumours about Iran attacking Israel with atomic weapons for instance. This leads to a

shock: many actors decrease their consumption and investment significantly. It means that every actor must have buffer-stocks to survive. Of course everyone must decrease its activities: lower production and employment, but not a complete breakdown. In such a typical Keynesian situation the government must step in and operate as a counter force: increasing spending, especially public investments, financed in a monetary way. Because people are irrational and are inclined to forget the necessity of having buffer-stocks in good times, the government must enforce important organisations such as banks to hold these stocks (Kregel, 2010).

Public leadership and pluralisme

Scientists must, as they did in the thirties, ask themselves the basic questions. For the years to come two issues are very important. Firstly, the Ministry of finance and the Parliament must stop delegating responsibilities to the central bank; we live in a democracy. (Keizer, 1997) Secondly, the ideology of social science and politics must not be dominated by one principle. Democracy requires an open and ongoing debate, in science as well as in economy. Only in rationally organised communication we can improve the quality of our activities systematically. (Habermas, 1987).

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