

## COMMON SENSE: BOYCOTT HOLLAND



# Common Sense: Boycott Holland

An advice till the censorship of science by the directorate of the Dutch  
Centraal Planbureau is lifted

How to solve the economic crisis since 2007

Collected economic papers and protest against the Dutch mental disease  
(as compared to the Dutch Disease)

Companion to DRGTPE (2011)

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Colignatus is the science name of econometrician Thomas Cool (1954). He worked at the Dutch Central Planning Bureau in 1982-1991. His analysis on unemployment met with censorship by the CPB Directorate and he was dismissed with an abuse of power. He advises to a boycott of Holland till this censorship of science is resolved. He is candidate for President of the European Union for the Dutch Sociaal Liberaal Forum.

<http://thomascool.eu> (was <http://www.dataweb.nl/~cool>)  
<http://boycottholland.wordpress.com>

The Dutch Disease is that a natural resource like natural gas raises exports and the value of the currency, so that other activities are crowded out, and unemployment may result. See p87.

The Dutch mental disease is that the Dutch think that the Directorate of the Central Planning Bureau is incapable of censorship, or, at least, that it doesn't apply in this case. Even a world economic crisis does not cause the Dutch to wonder whether it would not be better to have more freedom to discuss the present proposal for a new economic theory.

The included papers refer to each other not by page number but via literature reference.

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## Samuel van Houten Genootschap

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JEL (Journal of Economic Literature)

A10 - General Economics - General

A11 - Role of Economics; Role of Economists; Market for Economists

E00 - Macroeconomics and Monetary Economics - General

E60 - Macroeconomic Policy, Macroeconomic Aspects of Public Finance, and General Outlook

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# Preface

Thomas Paine argued in his *Common Sense* in 1776 for *no taxation without representation* plus the end to hereditary royalty. My present suggestion is *no taxation without an Economic Supreme Court* plus the end to the censorship of science in Holland. Since August 2007 the world has grown aware of the notion of 'Greek statistics.' Required is a growing awareness of 'Dutch science'. The latter wreaks greater havoc. Since 2004 I advise to boycott Holland till the censorship of science in Holland is resolved.<sup>1</sup> This present book collects papers since then, mostly on the crisis.



The crisis is fundamentally a crisis in democracy and in how our governments and parliaments deal with economic co-ordination. I have been explaining this since 1990, see my book DRGTPE.<sup>2</sup> The crisis confirms my analysis, yet, it doesn't help when you have been right when fashion dictates other views. People tend to regard the economic crisis as a financial crisis, or as a crisis that started in finance. People then look at a symptom and not at the underlying cause. Like a cook in the kitchen of economics I have been presenting a tasty cake since 1990 yet the spotlights are now on the national debt, finance and banking. I don't control the spotlights and can only add another layer of tasty cake. My papers since 2008 are now collected here as a companion to my earlier analysis. DRGTPE (2011) only contains their abstracts but here are the texts in full.

DRGTPE discusses stagflation as the major economic problem. The current crisis has symptoms of finance and thus the enclosed papers indeed discuss issues like national debt, finance and banking. These are important aspects in the outward appearance of the current crisis indeed, so there is some rationale for the current mistaken fashion. However, when these symptomatic issues would have been resolved, the underlying stagflation rears its ugly head again, and people might be at a loss what to do next. Hence it is important to keep in mind what the fundamental analysis is.



The basic idea of DRGTPE is that Keynes's *General Theory* is generalised even further by including endogenous government in the model, so that we arrive at a truly general *Political Economy*. The world had the Great Depression 1930-1940 and has the Great Stagflation 1970-today and by including 'stagnation in economic policy making' in our analysis we find a better explanation. The general theory also advises a democracy to create an *Economic Supreme Court* (ESC) as a separate constitutional power, next to the Legislative, Executive and Judicial branches.

DRGTPE is primarily directed at my fellow economists and it primarily gives theory and stylized facts. The colleagues will specifically have to understand the *Definition & Reality methodology* before they will appreciate that my analysis is scientifically warranted. Much work remains to be done in practical research. And much work remains to be done by the other professions.



Since the current imbalance of powers has many victims, it may be hoped, none the less, that the parliaments of our democratic nations investigate the issue too, so that there is more hope for improvement in their living conditions.

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<sup>1</sup> <http://econwpa.wustl.edu/eprints/get/papers/0405/0405001.abs> included here, see p139, <http://thomascool.eu/Papers/Institute/After35YearsOfMassUnemployment.html>

<sup>2</sup> *Definition & Reality in the General Theory of Political Economy* (2000, 2005, 2011) <http://thomascool.eu/Papers/Drgtpe/Index.html>

NB. The enclosed papers will refer to DRGTPE as (2005) but there thus is the update (2011) consisting of (2005) plus the summaries of these papers.

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## **Part 1. Shorter texts for a larger public**



## ***The current economic crisis: A solution that “lies buried and obscured in a mass of false theory”***

**Abstract, February 16 2009**<sup>3</sup>

The current economic crisis is much larger and wider than commonly recognized. Parliaments around the globe are advised to have enquiries with respect to a constitutional amendment for an Economic Supreme Court (ESC). When each country adopts its own ESC then those national ESCs can provide a base of international co-ordination for national policy making.

### **Introduction**

When we want that economic policy is effective towards recovery then it must be based upon the right theory. A doctor without the proper diagnosis is at risk of giving the wrong treatment. Hapsnap ways, muddling through, unreliable forecasts, international bickering, are a recipe for a prolonged recession. Sound theory is key for recovery. Recovery will be greatly helped when the true diagnosis, treatment and prognosis can be explained and understood in clear manner that will be convincing to the general population.

A. Loveday, director of the Financial Section and Economic Intelligence Service of the United Nations, wrote, in his 1936 Preface to Gottfried Haberler (1946) “Prosperity and depression”:

“It is apparent from the persistence with which depressions occur, from the gravity of their economic and social effects, and from the growing consciousness of that gravity, that – however abundant the literature on the subject, however elaborate and specious the theories – our knowledge of the causes of depressions has not yet reached a stage at which measures can be designed to avert them. This failure of society to control its own destinies may be due to one of three causes. It may be due to the fact that the causal relationship of events has not up to the present been ascertained; it may be due to the fact that, although the truth has been discovered and stated, it lies buried and obscured in a mass of false theory; finally it may be due to the fact that, although the truth is known and recognised, depressions are as inevitable a phenomenon of our present economic structure as famines were of a more primitive economy which lacked means of transport and storage.” Loveday (1936)

For the current economic crisis the second case holds: although the truth has been discovered and stated, it lies buried and obscured in a mass of false theory.

### **What is at stake**

This Fall, the authorities have prevented the collapse of the financial system but they have not dealt fully with the consequences for the economy as a whole. Modern economic relations are very tight, with “just in time” logistics, “24 hour a day” service, flexible / temporary employment, etcetera. It is no surprise that what many called the “credit crunch” actually is the severe crisis that many recognize only now. It can get much worse very quickly. Leijonhufvud (2009) states for good reason: “Instead, we are threatened by a veritable disaster.”

Last September, Colignatus (2008) (below page 61) already pointed to various competing theories and suggested that all theories failed except Colignatus (1990a, 1992b, 2005). Unfortunately this suggestion was not taken up and six precious months have been lost. Colignatus (2009a) (below page 68) provides an additional suggestion for dealing with the situation six months later. The latter suggestion however should not distract from the fundamental proposition.

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<sup>3</sup> <http://www.voxeu.org/index.php?q=node/3087>

- (1) The true crisis concerns our system of democracy, with the separation of powers in the Executive, Legislative and Judicial branches. This arrangement allows insufficient breathing space for independent economic science. Advisable is an Economic Supreme Court (ESC) with the power to veto a budget when it contains inadequate information (according to the ESC). See Colignatus (2005) for the most recent arguments and a draft Constitutional Amendment for an ESC open to the scientific community. Parliaments around the globe are advised to have their own Parliamentary Enquiries on this.
- (2) When countries each adopt their own ESC then those national ESCs can provide a base of scientific co-ordination for national policy making.
- (3) The standard example argument supporting the conclusion for the ESC concerns unemployment. It can be shown how full employment can be restored in a neutral way with respect to inflation or deflation. See Colignatus (2005) for the required concepts of the tax void, the dynamic marginal rate and the implications for the Phillipscurve and NAIRU. Obviously, the standard percolation processes from science to policy from 1990 to the present day have not succeeded in the resolution of unemployment while the theory was available.
- (4) The current economic crisis may be added as another piece of evidence supporting the argument for an ESC. The crisis is actually wider than just this economic crisis. It would not do to think that only information with respect to the "credit crunch" would have been blocked by the current imbalance of powers and that all other economic scientific information is processed in good order. The reasoning applies as well to the economics of the environmental challenge, world population growth, international defense spending, world poverty, infectious diseases and comparable issues. The case for an ESC is logically sound and imperative from the theory of democracy.

### **A solution from the shelf**

This solution approach for the current economic crisis thus can be taken from the shelf. The values of variables and parameters will have to be adjusted but the logical framework already exists. This should not come as a surprise. The Dutch Central Planning Bureau (1992) study *Scanning the future* on the long run 1990-2015 already contains a wide range of scenario's, one called *Global Crisis*. The structure is very simple: the US and EU can grow or decline, and this gives  $2 \times 2 = 4$  scenario's. But when you start wondering about the basic economic mechanisms that cause these processes then the reasoning takes off and you end up with the ESC as the missing link in the required feedback. Hence, Colignatus (1990a) is the logical statement, with Colignatus (2005) as an elaboration.

### **The moot point of education**

The moot point is that a solution that has a long shelf life and that has been buried under layers of false theory requires a good deal of re-education on existing views. The true theory agrees with 99% of the false theories but there is a difference of 1% that is crucial. Each author may have a different 1% than another author. Society depends upon the willingness of economists to study, read with an open mind, revise their views, re-edit the volumes of "Introduction to Economics" taught at our universities. The existence of "schools of economic thought" would make us skeptic. Let us hope for the best that science can offer. And let us hope that society is willing to take economic scientific advice seriously. As economists, we can only take our example in Jan Tinbergen and then hope for the best.

## ***A macro-economic lesson from Holland***

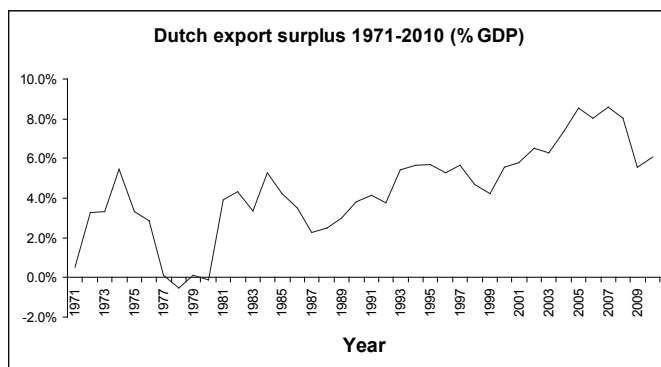
**Abstract, March 31 2009 <sup>4</sup>**

The US and Europe have welfare states that cause stagflation but they have been repressing this stagflation by financial deregulation. Holland has been repressing its problems with the welfare state also by a low wage policy. The Dutch economy has been running a surplus on the external account for years in the same way as China and Japan. The focus by policy makers on finance is misguided and does not solve the real problem in the current crisis. The basic problem in the world is how to structure the welfare state. Next to the structural solution, a temporary solution of a reduced working week is superior to the rise of unemployment.

### **Introduction**

Obscured in international statistics, Holland has been creating sizeable surpluses on the external account (graph). The country thus is much like China and Japan, and it is only that it is so much smaller so that this does not draw attention. The reason for the Dutch surplus is basically the same as for China and Japan too. To fight unemployment at home, the Dutch have resorted to a low wage policy. Thus they not only export Heineken, cheese and flowers but also unemployment.

As Spilimbergo e.a. (2008) explain, a single country may escape from the current economic crisis by exports but it is a bit difficult for all countries to do so. By implication, it is interesting to find out what caused this Dutch reliance on exports. When we can determine what caused the economic imbalance then the world might avoid it.



Source: calculated from CPB (2009). 2010 forecast. See p88.

### **Exposed versus sheltered sectors**

Van Schaaik (1983) provides the basic step. The Dutch policy to fight unemployment consisted of a general wage restraint. This general restraint implied too little restraint for the sheltered sectors and too much restraint for the exposed sectors. That is, in the exposed sectors, mostly Dutch agriculture and manufacturing, workers are very productive and their incomes might grow faster. However, a general restraint blocks that faster growth. A better policy alternative would have been a tax policy, to support the net incomes of the lower productive sheltered workers (services), so that one could allow higher wages for the more productive exposed workers. This however never got sufficient attention apparently since there was no clear need for an alternative.

The same conclusion now holds for China and Japan. They would be wise to develop their home markets and divert resources away from exports. Indeed, exports generate

<sup>4</sup> <http://thomascool.eu/Papers/Drgtpe/Crisis-2007plus/2009-03-31-MacroLesson.pdf>

foreign exchange reserves but those need not keep their value. The Dutch and their pensioners have been big investors in the US as well but those investments haven't quite kept their value.

### **Extension to the world as a whole**

Colignatus (1990a, 1996, 2005) digs deeper into the Van Schaaik (1983) analysis. The problem in Dutch society has been caused more fundamentally a bit by the mismanagement of the "Dutch disease" following the discovery of large resources of natural gas but much more importantly by mismanagement of the welfare state. This analysis actually can be extended to the world at large, for all countries that developed a welfare state. General misconceptions caused the problems of Stagflation, the unfavourable combination of inflation and unemployment.

The period since 1970 can be called the Great Stagflation, and the last period is one of "repressed stagflation". While the Dutch have been fighting stagflation by a recourse to exports, the US has relied on deregulation and financing the Iraq war by borrowing from China.

The path towards recovery consists of three elements: (a) institutional safeguards, (b) restoration of the optimal path, (c) measures to get to that path. Colignatus (2009b) considers element (a), the institutional setting. Colignatus (2009a) considers elements (b) and (c), i.e. the macro-economics of the recovery.

### **The key point is to keep people in jobs**

The key point for the current situation is to keep people in jobs. A good solution is a temporary reduction of the working week. A reduction of working hours is inappropriate when there are structural problems e.g. with the level of wages but now that we know what happened it follows that a job (at reduced hours) is better than an unemployment benefit.

The analysis by Spilimbergo e.a. (2008) and the review by Lane (2009) rely too much on the notion that "there will be unemployment" that "hence" must be tackled with "fiscal or monetary policy". That approach puts huge sections of the public through periods of high personal insecurity and financial distress, and quite unnecessarily so.

Obviously, we need to restructure the financial system as well. A separation between savings banks, investment banks, and insurance is obvious, while hedge funds can be put into a public utility until the finance community knows better how to regulate them. And fiscal and monetary policy undoubtedly will play a role. But there is no need to put people into a state of unemployment. It is a source of amazement that economists are trained to think so.

### **A word of caution**

The basic cause lies with the structure of taxation and welfare state. Unfortunately, the epiphenomenon in the US is a financial crisis. By consequence, the team composed by President Obama is weighted heavily with advisors from the world of finance, and subsequently they develop plans on finance, with apparently also a bias to protect shareholders of banks rather than the (future) unemployed. Krugman (2009) and The Economist (2009a) rightly point to the overall risks of this. The Economist calls nationalisation "politically unpalatable in America" but this is precisely because of the bias of the team picked. And they apparently lock themselves up in isolation and groupthink. The G20 meeting was intended to make a difference but is already being toned down or may highlight rifts between the major regions that can upset the markets. It is regrettable. President Obama started out with great promise but sees himself confronted with a failing restructuring of the financial system, soaring national debt, a dropping dollar, rising inflation and unemployment, a loss of confidence, and a loss of strength to fulfill the promise. Europe can help Obama by clarifying what advice he needs, yes, we can.



# ***Gliding into the Bush-Obama Depression***

## **Abstract, April 6 2009**<sup>5</sup>

The G20 Summit was based upon a wrong diagnosis. It did not chance upon the right treatment. The prognosis is that we glide into a depression. The economic promise of the Obama Presidency is at peril.

## **Introduction**

The G20 April 2 Summit Communiqué (2009) can be seen as the Swiss reaction to global warming. With less snow and shorter ski seasons, the tourists stay away and snow machines seem a quick fix. It buys some time though the machines burn fossil fuel and contribute to global warming. The current economic crisis was caused by too easy credit and the G20 see it as a solution to provide more credit.

The US Bureau of Economic Analysis BEA (2009) reports: "Real GDP increased 1.1 percent in 2008 (that is, from the 2007 annual level to the 2008 annual level), compared with an increase of 2.0 percent in 2007." Those "income" or "product" measurements do not quite reflect the losses in wealth from homes, shares and pension savings. In terms of the "state of the economy" people will tend to agree that 2007 was already a rather depressing year, and economic science is still looking for a good indicator to express this.

By common annual GDP standards the upcoming Depression would only start in 2009. If President Obama is unable to switch course, the upcoming depression deserves the "Bush-Obama Depression" label. Admittedly, all G20 participants are responsible for their own actions, also Mr. Berlusconi, but it helps to focus on the two major policy making culprits.

Let us consider some reactions to the Summit. Jeffrey Sachs (2009b) as a member of Secretary General Ban Ki-Moon's delegation is quite positive. However, earlier Sachs (2009a) was critical of the US plan on toxic assets. This problem hasn't been solved yet while this would be important for a recovery. The Economist (2009b) states too: "(...) America's plan to clean up its banks, for instance, is still inadequate". Persaud (2009) is cautiously cheerful, and Wyplosz (2009) is guardedly skeptical: "It would be a tragedy that the summit ends up encouraging complacency." Baldwin (2009) is a welcome reminder that international trade is not quite the cause but rather the consequence of collapsing demand and deteriorating credit. Thus the Summit attention for trade is somewhat useful but not the essence.

I have read more reactions and it would distract to list them all. Apparently my own comment is distinctly different from all of these. It is: (1) that the Summit was based upon a wrong diagnosis, (2) that it did not chance upon the right remedy, (3) hence that the prognosis must be that we continue to glide into a major Depression, and (4) that the economic promise of the Obama Presidency is at peril.

This present comment is only a superficial review of the main lines of reasoning. I have collected my relevant papers at the weblink Colignatus (2009j) and refer only this once. The given weblink provides the argumentation in depth.

## **Ad 1. The diagnosis**

### *1.1 The economics of information*

In this evolving depression, the various "crisis peak moments" (like Bear Stearns in August 2007) all had the property that the information was available but not properly collected and transformed into adequate policy.

A major point is that the Bush Administration financed the Attack on Iraq by implicitly borrowing from China. The US is a democratic state and China is an authoritarian state so

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<sup>5</sup> <http://thomascool.eu/Papers/Drgtpe/Crisis-2007plus/2009-04-06-Depression.pdf>

that the burden for the more sensible policy would rest with the US. Instead, the US failed, but not for the lack of available information. The basic problem lies not within the financial realm but within the whole system of economic decision making, and in particular with the handling of information. Once you grasp the notion of a systematic failure in the current structure of democracy, a reconsideration of history will provide all the evidence needed for further confirmation.

The prevalent system of democracy with the Trias Politica of the Executive, Legislative and Judicial branches still allows too much leeway for the political process to manipulate information that is crucial for the living conditions of the people. This is an analysis that can be made in the field of Political Economy. The best solution found till now is the suggestion of an Economic Supreme Court (ESC), at the same constitutional level as the other branches.

### *1.2 Macro-economics by itself*

In terms of macro-economics seen by itself, the diagnosis is that we face “repressed stagflation bursting into the open”. Stagflation was repressed by deregulation running amok. When deregulation is put a stop to (with re-regulation), stagflation will break out into the open again.

The Great Stagflation since 1970 itself has been caused by information mismanagement as well. Proper management of information thus is required to get us out of this mess too.

If you don't have the right diagnosis then you may still chance upon the right remedy. In the present case it is highly unlikely that we will be so lucky.

## **Ad 2. The remedy**

### *2.1 The economics of information*

The proper remedy would be for each nation to create a constitutional amendment on an Economic Supreme Court. Thus the G20 Summit should not have been a gathering of the leaders and their ministers of Finance only but should also have included their constitutional jurists.

### *2.2 Macro-economics by itself*

For macro-economics, the solution consists of (a) restoration of the optimal path by restructuring tax and social security to take away the macro-economic cause for the Great Stagflation, (b) to accept an appropriate reduction of the working week as a temporary measure to get to the optimal path. Thus the G20 Summit should also have included their ministers of Economic Affairs.

Currently, the G20, in their money and finance mode of thinking, accept the rise of unemployment as inevitable. Unemployment is seen to rise to some 10% and in some countries even much higher. The G20 try to avoid it, of course, but apparently only over a longer horizon, while there is more urgency to bail out the banks.

The G20 intend to support demand and re-regulate finance. Demand is supposed to be supported by an expansion of the IMF. Re-regulation of the financial system indeed is required. This may be interpreted as better handling of information in a sub-area. The common measures however are inadequate.

Money and credit aren't substitutes for real measures and carry the risk of inflation. Monetary and fiscal measures are known as “pushing on a string”. Another analogy is “you can bring a horse to the water but not make it drink”. An allocation of SDR falls into this category. There is no quick and reliable channel from the government to the micro level. The G20 measures only prevent a collapse just now and buy some more time but also allow the rot to creep in more deeply.

PM 1. SDRs are also dubious since they are a political way out of hard choices. When a government is faced with austerity, taxation, debt or printing money, it seems a political relief to be able to get or borrow SDR from an institution that does the printing (under joint responsibility with others in the same boat). SDRs sound austere and seem to prevent