After the crisis: Five questions

By way of introduction ...

Perhaps no image from the Great Depression of the 1930s is more iconic than “Migrant Mother”, a photograph by Dorothea Lange. It shows a tired-looking woman staring out from under a rough canvas tent; in her arms a baby is nestling, against her shoulders two older children are resting.

The woman’s name was Florence Owens Thompson, and she was travelling with her family through California looking for work when she was spotted by Lange. “I saw and approached the hungry and desperate mother, as if drawn by a magnet,” the photographer later recalled. “I did not ask her name or her history. She told me her age, that she was 32. She said that they had been living on frozen vegetables from the surrounding fields, and birds that the children killed.”

Eighty years on, it’s hard to think of a single image that bears such eloquent witness to our era’s “Great Recession”. That’s not too surprising. Even though many people have lost their jobs, and some their homes, the suffering and hardship of the 1930s have not been repeated. Indeed, as economies continue their slow recovery, it’s tempting to imagine that this slowdown will soon be forgotten – just a blip in the world’s otherwise orderly economic progression.

Tempting, but dangerous. Just as the Great Depression defined the lives of a generation and reshaped the world’s economic and political contours, the recession we’ve lived through will have long-term consequences. Some of these will be economic, some social, and some may not become fully apparent for years to come. To think about some of these long-term impacts, this chapter poses five questions:

► What’s the long-term economic impact?
► When will government policy get back to normal?
► Has the global balance shifted?
► Can the crisis become a green opportunity?
► And, does economics need a rethink?

What’s the long-term economic impact?

“Annual income £20, annual expenditure £19 19s 6d, result happiness,” declares Mr. Micawber in Dickens’ David Copperfield. “Annual income £20, annual expenditure £20 0s 6d, result misery. The blossom is blighted, the leaf is withered, the God of day goes down upon the dreary scene, and – and in short you are forever floored.”

“Floored” might be a little strong but, thanks to the actions they took during the crisis, many governments are now hunched a little lower under the weight of debt and deficits. (Remember, in very basic terms, a deficit occurs when a government spends more than it earns in a given year; a debt is the accumulation of such deficits over time.) This legacy is likely to linger, and it will shape the course of governments’ future spending, including their ability to cope with social and economic change, such as population ageing.
**The price of borrowing**

In OECD countries, the national debt has risen during the crisis by about 30 percentage points and is now typically approaching 100% of GDP. In other words, countries’ borrowings are now equivalent to about a year’s worth of economic output. Deficits – which are more closely watched than debts – have also deteriorated. In 2000, OECD governments were actually earning a little more than they were spending; by 2009, average annual borrowings were equivalent to about 8% of GDP. Most economists believe these increased burdens are justified – after all, if governments hadn’t acted so swiftly we might now be in the midst of the Second Great Depression.

**Government net lending as a percentage of GDP**

![Graph showing government net lending as a percentage of GDP](https://community.oecd.org/community/factblog/blog/2010/03/23/deepening-debt)

Indeed, despite Mr. Micawber’s warnings, debt in itself isn’t a bad thing, either for governments or individuals – think of all those people with long-term student loans or mortgages. The problems really begin if your lenders start to wonder if you can pay back your borrowings. For some countries that has become quite an issue.

Typically, governments borrow money by auctioning bonds on the international money markets. In the fast-moving, high-flying world of finance, these can look a little dull: They take a long time to mature – often decades – and the interest rates are usually fairly low. But they are very secure – they’re backed by the government of a country, after all, which makes them attractive. But that lure diminishes if bond buyers are worried about the risk of a “sovereign debt default” – in other words, will this government be able to pay its debts when the time comes?

One way in which these doubts are reflected is in interest rates on government bonds – if buyers have doubts about a country’s economic prospects they’ll want a higher return. According to data compiled by The Wall Street Journal, in March 2007 – before the crisis struck – Greece was paying an interest rate on its bonds that was about a quarter of a percentage point higher than the German rate. Three years later, following sharp increases in the Greek government’s borrowing, the Greek premium had risen to 3.25 percentage points (and it would later rise higher still). This meant Greece now had to pay higher interest rates to borrow money, which, in turn, only added to its borrowing needs.

So, it’s important for governments to be able to reassure the markets that they can go on paying their debts. That doesn’t mean cutting the size of them straight away. As we’ll see later in this chapter, the recoveries in some countries are still so weak that special measures to support economies will be needed for some time yet. But to keep the confidence of the markets, governments do need to show they recognise the debt problem and signal how they ultimately plan to deal with it by revealing their “exit strategies”.

Ways to cut deficits

Boil it down, and governments really have only two options when it comes to cutting deficits – raise taxes or cut spending.

Raise taxes: Rarely popular with the voters, tax rises mean more income for governments and, thus, reduced borrowing needs. But, aside from the political obstacles, there are limits to how far most governments feel they can go (although people in different countries vary greatly in their appetites for tax). If taxes rise too high they reduce consumers’ spending power as well as businesses’ incentives and capacity to invest. In a globalised economy, they may also lead individuals and companies to relocate to lower-tax countries.

That said, there’s a lot of room for manoeuvre in taxation, and some tax rises may be less painful than others. For instance, property taxes and indirect taxes, such as sales and value-added taxes, seem to have less of an impact on economic activity than income taxes. And “green” taxes could deliver the twin benefits of boosting government coffers while discouraging carbon emissions.

Cut spending: Once governments start spending in an area, it can be hard for them to stop. Any group that’s benefiting from spending may feel a cut very sharply, and may be motivated to protest loudly. By contrast, the benefits from a cut may be spread out so widely across society (e.g., to taxpayers in general), it can be hard for anyone to feel sufficiently motivated to come out in support.

In addition to such political challenges, there are important issues of economic strategy that need to be considered when cutting spending. For example, education eats up a large slice of public spending in OECD countries – about 13% – but much of that can be thought of as an investment in human capital that will pay off in long-term economic growth. Similarly, spending on innovation and R&D can seem expensive in the short run, but can help drive growth for years to come. Decisions on spending can also be made that will have little immediate impact, making them more politically acceptable, but that have the potential to bring long-term returns, such as changes to pensions and healthcare provision.
The growth solution

There is a third, highly attractive, solution we haven’t mentioned – governments can grow their way out of debt. (Some academic economists talk about a fourth approach in which governments “inflate” their way out of debt by triggering a short, sharp burst of inflation. In practice, this would be difficult to engineer.) When an economy is growing, governments automatically spend less on welfare as unemployment falls and earn more from taxes as wages rise and company profits strengthen. The problem is that, unlike the first two options – tax rises and spending cuts – governments can’t simply make it happen. They can, however, create circumstances through the right mix of taxation and investment that make growth more likely.

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<tr>
<th>Countries</th>
<th>Employment effect</th>
<th>Cost of capital effect</th>
<th>Total effect of the crisis</th>
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<td>Australia</td>
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<td>United States</td>
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1. The effects of the crisis on potential output are calculated through two distinct channels (see OECD, 2009b for further details): (a) a fall in potential employment, which is mainly due to a rise in structural unemployment as a result of hysteresis-type effects; (ii) the negative effect of a permanently higher cost of capital through higher risk premia on the long-term capital-labour ratio and thereby on productivity. The calculation of the effect of lower potential employment on potential output includes a “scaling” effect as other factors of production (capital) are reduced by the same proportion, so that an x% fall in potential employment also reduces capital inputs – and thereby potential output – by x%. Some OECD countries are excluded from the table as a full breakdown of the components of potential output is lacking, usually because data for capital services are not available.

2. For Ireland and Spain, the negative effect of the crisis on potential employment includes a substantial reduction in the labour force mainly resulting from a reversal of net immigration flows.

Source: 2009 OECD estimates.
“Past experience with financial crises indicates that GDP and income levels are unlikely to return any time soon to their initially projected path.”

Economic Policy Reforms 2010: Going for Growth

Unfortunately, economic expansion at the pace we’ve been used to may become rather elusive in the years to come. One reason for this lies in the lingering impact of the recession. Economists often think of economies in terms of their potential output – in effect, this is the total GDP that could be produced if everyone who wanted to work had a job and every factory was working at full steam, and so on.

In the wake of the crisis, the potential economic output of OECD countries – i.e., the size of their economies – is forecast to be 3% lower than it would have been if they hadn’t been hit by the recession. For some countries, the impact will be much greater – about 4% for Italy, 10.6% for Spain and a little under 12% for Ireland. Why? There are two main reasons: First, the pre-crisis appetite for risk has faded, which will make things like borrowing capital for investment more expensive, so companies will find it harder to expand; second, unemployment is likely to remain high, which in itself dampens economic activity.

What about growth rates – i.e., the amount by which an economy expands each year? In theory, OECD economies could return quite swiftly to their average annual pre-crisis growth rates of about 2% to 2¼% (albeit from a lower base than before). In practice, growth in developed countries faces some serious obstacles and is forecast to hover around 1¾% over the long term. The main reason for this lies less in the legacy of the recession and more in a problem that’s been brewing for many years – ageing populations.

**Fairness between the generations**

In much of the OECD area, the population is getting steadily older as fewer babies are born and more people live to a grand old age. In OECD countries in 2000, there were about 27 people of retirement age for every 100 active workers. By 2050, that ratio is forecast to rise to about 62 retirees for every worker. And in some countries, such as Spain, Japan, Korea and Japan, it’s forecast to be more than 90. Even with higher retirement ages the size of the workforce looks set to fall, which means fewer workers to support an ever-growing slice of the population.

These are not new issues, but the crisis has thrown them into even sharper relief. In part this reflects a perception that the “baby boomers” (sometimes defined as people born between 1946 and 1964) will enjoy all the benefits of a strong social welfare system but will hand on huge national debts to their children and grandchildren. One British writer, 29-year-old Andrew Hankinson, puts it this way: “No doubt the older generation will have a good time with their free bus passes and villas in Spain. They’ll enjoy the pensions and property. ... We’re just cheap labour, here to fund a bit more wealth. We know that now. And don’t worry, we’ll pay off the debt.” For the sake of fairness, if nothing else, the bill for fighting one generation’s crisis can’t simply be presented for payment to the next generation.

But, as we saw in Chapter 5, it’s also important to start planning now to cope with the shifting age balance in our societies – otherwise, the rise in debt during the crisis could look very minor compared with what’s to come. According to economists at the Bank of International Settlements, if governments stick to their current spending commitments on pensions and the like, national debt in some OECD countries could hit more than 400% of GDP by 2040. In reality, that couldn’t happen – financial markets would stop lending to a country long before its borrowing hit such heights. But the forecast is a warning about the scale of this looming challenge. The loss of economic output during the recession won’t make solving it any easier, but it may engender a new sense of economic reality about the need to start acting now.
When will government policy get back to normal?

In the immediate post-crisis era, commentators often liked using medical metaphors – economies were “out of intensive care but still on life support” or, better still, “walking on crutches”. The point they were making is that, yes, there was economic recovery but it wasn’t yet fully self-sustaining.

Especially in developed countries, like those in the OECD area, the initial phases of recovery have been driven by policy decisions – low interest rates, tax cuts, extra spending on infrastructure. Were this support to be removed overnight, economies could slide back into a slump again. There probably isn’t enough consumer and business activity going on to drive a traditional recovery. By contrast, recovery in many developing and emerging countries is more organic (although in some, notably China, government intervention is also providing a major stimulus).

The slowness of the return to economic normality is not too surprising: Financial crises cast long shadows. The shock to the confidence of businesses and consumers, and to their balance sheets, can take years to heal, robbing economies of the usual post-recession stimulants, such as consumer demand that’s built up during a downturn.

So, to avoid a spiral into an economic depression, governments have had to go on providing extraordinary – perhaps unprecedented – support to the economy. But there’s a limit to how long this can go on. For one thing, it’s expensive: As we saw in the previous section, government’s annual deficits have risen sharply. That can’t go on forever. Policy interventions can also lead to unwelcome dynamics in economies. For example, ultra-low interest rates may make borrowing relatively cheap – which can stimulate the economy – but they also risk fuelling new bubbles in asset prices similar to those that led up to the crisis.

And there’s the problem of what to do if there’s another downturn. With interest rates already at such low levels, there’s little room for manoeuvre in sending them lower. If another recession hit, that means governments would be robbed of one of their chief economic weapons.

Timing is everything …

At some stage, then, government policy is going to have to return to normal. But, as with so much else in life, timing is everything. Move too fast, and nascent recoveries could be strangled at birth; wait too long, and the debt burden will go on growing.

"Preparing exit strategies cannot be put off. Many of the interventions, while appropriate during the crisis, would be harmful if they stayed in place for too long."

Jørgen Elmeskov, OECD Economic Outlook, Volume 2009/2

It’s clear that a full return to normality will take some time yet, and it’s likely to happen at a varying pace across different sectors of the economy. For example, in some countries, the effective “nationalisations” of some banks and financial institutions may take many years to unwind. Even more modest steps, such as measures to recapitalise banks, will take time and will probably not fully come to an end until there’s full implementation of financial-market reforms. By contrast, other support, such as “cash for clunker” schemes to support the automotive industry, have already ended in many countries.

But even if it takes years to fully unwind their various interventions, governments need to say how they’re going to do this – they need, in effect, to set out their exit strategies. As we’ve seen, that’s essential if they’re to retain the confidence of international lenders. But on the home front, too, clear signals from governments on how they plan to get spending back in line will reduce uncertainty for households and businesses and encourage them to start planning more concretely for the future. Internationally, it would also make it easier for countries to coordinate their approaches to ensure that, as far as possible, steps taken by one country don’t end up hurting another.
Has the global balance shifted?

An enduring image from the early days of the crisis was the emergency summit of leaders in Washington, D.C., in November 2008. Presided over by then-US President George W. Bush, it brought together the likes of France’s Nicolas Sarkozy, Germany’s Angela Merkel and Japan’s Taro Aso. But there was another group of leaders there, too – India’s Manmohan Singh, China’s Hu Jintao, Brazil’s Lula da Silva and others.

For many observers, the substance of those Washington discussions was less important than the fact they happening at all: This was the first time that heads of government from the world's leading and emerging economies had met under the G20 umbrella. The timing – just as the full scale of the financial crisis was becoming apparent – seemed to send a clear signal that the crisis was global and needed a global response. But that couldn’t just come from the traditional G8 economic powerhouses. From now on, a much wider group of developed and emerging economies would need to play a role in such gatherings.

The crisis didn’t cause this shift in the balance of global economic power. Indeed, if anything, it was the other way around. “The origins of the crisis lay in our inability to cope with the consequences of the entry into the world trading system of countries such as China, India, and the former Soviet empire – in a word, globalisation,” the governor of the Bank of England, Mervyn King, has stated. The numbers back this up. In 1980, high-income countries (typically, those found in the OECD area plus some others) accounted for 71% of the global economy (PPP adjusted). By 2008, that had fallen to 56%, thanks in large part to the emergence of countries like China and India. As emerging economies have recovered more strongly from the crisis than many developed economies, that share is unlikely to stop growing.

What are coupling and decoupling?

If the U.S. sneezes, does the rest of the world catch cold? That’s the question at the heart of the great coupling vs. decoupling debate. Over the years there have been several shifts in opinion. At one time, it seemed that the economies of China and other developing countries were growing independently of what was happening in developed economies. Then the global recession came along, appearing to indicate that the economies of the world were coupled. But the rapid pace of recovery in transition economies compared to those in the OECD area has reawakened interest in decoupling. If the idea is borne out, it could add a brand new dynamic to the global economy.

But it wasn’t simply the emergence of transition countries over the past couple of decades that led to the crisis. As we saw in Chapter 2, the phenomenon was also accompanied by growing imbalances in the world economy. In simple terms, manufacturers in transition economies sold vast amounts of goods to Western consumers, and then, rather than spending the earnings, saved them by buying the likes of U.S. Treasury bonds. Or, as Mervyn King has said, “The benefits in terms of trade were visible; the costs of the implied capital flows were not.”

Clearly, such imbalances could not continue forever. To some extent, the subsequent recession has smoothed out these imbalances – for instance, Western consumers cut back on their spending. But as the world economy recovers, there’s concern that too little has been done to deal with them over the longer term. There is a wide range of possible solutions, and some of them offer the prospect of a valuable double dividend. For instance, the OECD has called on China to save less and spend more in areas like pensions, health and education. This would help to address both social inequalities in China and broader global imbalances. There is also growing pressure on China to allow greater flexibility in the exchange rate of its currency, the yuan, so that it better reflects the country's trading strength.
“While, like many other countries China needs to foster social cohesion, unlike many other countries, yours is in the enviable position of having the fiscal room to do it.”

Angel Gurría, speech to the China Development Forum, Beijing, March 2010

There’s no point pretending that finding the answers to these global imbalances will be easy. In the post-crisis era, they are likely to be source of continuing economic and political tensions. But, equally, it would be very wrong to view these issues, and the wider shifts in the global economy, as zero-sum games. Already, the economic emergence of countries like China, India and Brazil has transformed the lives of millions of people for the better. It has created new engines for the global economy and for development in some of the world’s poorest countries. The challenge in the years to come will be to create new ways of overseeing the global economy that take account of the changed landscape while maximising the benefits for all.

Can the crisis be a green opportunity?

While much of the world’s attention has been focused on fighting the impact of the financial crisis, another even more profound problem continues to simmer – climate change. The potential costs of climate change are regularly and widely discussed – rising sea levels, loss of biodiversity, spread of human disease and so on. Equally, the costs of fighting climate change are widely bandied about: For example, the UNFCCC, a United Nations agency that works on climate change issues, has estimated that by 2030 developing countries will need inflows equal to tens of billions of dollars a year, and perhaps more than $100 billion a year, if they are to adapt to changing climate.

What’s less widely understood, however, is the idea that investing in environmentally friendly technologies and approaches could deliver a “double dividend” – a cleaner environment and economic growth.

“We are convinced that the conversion of our economies into low carbon economies can be an important source of growth and employment.”

Angel Gurría, speech in Seoul, November 2009

The recession has provided a rare opportunity to make such investments, for two reasons. First, because of reduced economic activity, the “opportunity cost” is lower – essentially, the reduction of overall business activity has reduced competing opportunities for investment. Second, as governments have to spend more to boost economic activity anyway, they may as well do so some of it in a more eco-friendly way. In a number of countries, a sizeable chunk of this money has gone to “green” or “greenish” projects, for example, renewable energy and railways. (“Cash for clunker” programmes have more mixed environmental benefits: It’s true that newer models tend to be more fuel efficient, but there’s an environmental cost to building them and taking older cars off the roads before the end of their useful lives.) Korea devoted an estimated 80% of its stimulus package to “green growth” measures, creating an estimated 960,000 jobs in areas like renewable energy, energy efficiency and transport, while France spent about a fifth of its $33 billion stimulus packages in similar ways. And China invested a massive $440 billion to support wind and solar power, helping to turn the country into the world’s biggest market for renewables.

Such measures are impressive, but it’s important to analyse seriously their effectiveness and to ensure that public funds yield maximum impact. Critics have argued that this is not always the case. For instance, Citigroup estimated that in 2009, about 30% of China’s wind-power assets were not in use, in large part because wind farms were not connected to the grid. In Germany, an independent research institute claimed that the government’s approach to supporting the country’s extensive renewable energy sector had resulted in “... massive expenditures that show little long-term promise for stimulating the economy, protecting the environment, or increasing energy security”. To make the most of the crisis as a “green” opportunity, policies will need to be carefully thought out to ensure that investment in green growth yields both economic and environment benefits.
What is the Green Growth Strategy?

In 2009, the OECD began work on a “Green Growth Strategy” with the aim of charting a course towards economies that produce growth based on lower carbon emissions. Just as with research and development, which are being studied in the OECD’s “Innovation Strategy”, going green can help drive long-term economic growth, through, for example, investments in renewable energy and improved efficiency in the use of energy and materials. The “Green Growth Strategy” is analysing the impact and interaction of economic and environmental policies together, examining ways to spur eco-innovation and thinking about other key issues related to a transition to a greener economy, such as jobs and skills, investment, taxation, trade and development.

Does economics need a rethink?

In November 2008, when the world seemed on the brink of financial collapse, an elderly English lady wondered aloud about the origins of the crisis: “Why did nobody notice it?” she asked. Her words might have gone un noticed except for one thing: She was Queen Elizabeth II and she was speaking during a visit to the world-renowned London School of Economics.

In truth, it’s not fair to say that nobody saw it coming. As early as September 2006, according to The New York Times, the academic and commentator Nouriel Roubini warned a gathering of IMF economists that a huge crisis was brewing, one that would see “homeowners defaulting on mortgages, trillions of dollars of mortgage-backed securities unravelling worldwide and the global financial system shuddering to a halt”. Few could rival that for an overview of the looming catastrophe. But there were also warnings about particular problems in the run-up to the crisis – global imbalances, the housing bubble, the risk posed by laxly regulated financial products.

Unfortunately, too few people put all these pieces of the jigsaw together to create a complete picture of the looming crisis. In the words of a letter written by British economists in response to the Queen’s question, “The failure to foresee the timing, extent and severity of the crisis and to head it off … was principally a failure of the collective imagination of many bright people … to understand the risks to the system as a whole.”

Why was there such a failure? Was it because economists simply failed to pick up the signals in this particular situation? Or was it something bigger – a failure in how economists generally understand the world and the economy? Not surprisingly, the crisis has led to soul searching in the profession: According to U.S. economist and Nobel laureate Paul Krugman, over the past three decades macroeconomics – i.e., “big picture” economics – was “spectacularly useless at best, and positively harmful at worst”. While that probably represents an extreme view, it does reflect a growing tendency to question some ideas that have gained dominance in macroeconomics since the early 1970s.

Two ideas have come under particular fire. The first is the “efficient markets hypothesis”. In very basic terms, this states that markets will always settle on prices for financial assets like stocks and bonds that are “right” – by necessity prices “reflect everything that is known about economic fundamentals, such as inflation, exports, and corporate profitability”, as John Cassidy has written. If prices rise above levels justified by economic fundamentals, someone will step in and sell; if they fall below, someone will spot the opportunity and buy. The second is the “rational expectations hypothesis”. Again, in very simple terms, this suggests that when it comes to thinking about the future, people have “rational” expectations and behave accordingly. Assuming they’re working from the same information, people will develop a collective sense of where inflation and interest rates are heading, which will guide their decisions.

It’s hard to overstate the influence ideas like these have had in how economies are thought of and in how governments regulate them. By and large, they have tended to foster a strong belief that financial markets are best left to themselves, encouraging a “hands-off” approach to regulation. However, the
scale of the boom and bust in property prices and the huge problems created by unregulated financial 
products has cast doubt on whether these hypotheses can really be said to reflect reality.

Other approaches, too, have come in for criticism. For example, the financial sector traditionally 
hasn’t featured prominently when economists formally think of the economy. In economic models, 
banks and financial market are often treated as a “given” – basically, intermediaries between 
economic agents like companies and investors, but not really having an impact in their own right. 
Again, the impact of the crisis may change such mindsets.

Personal view: Where now?

Some thoughts on the future of economics from William R. White, former chief economist at the Bank 
for International Settlements (BIS) and now chair of the OECD’s Economic and Development Review 
Committee.

How big an impact has the crisis had on macroeconomics?

I was at a conference organized by George Soros. Just about any big name you can think of was there – 
Jeff Sachs, Ken Rogoff, George Akerlof, Joe Stiglitz. They were there supporting the idea that we need 
new economic thinking. I took a lot of solace from that because, whatever profession you’re in, peer 
review is a very big thing. If you’re in the second rank of academic thinkers, you don’t have any choice 
but to go along with what the other people say is important: “This is the way we do economics.” It’s 
only the top rank people who can say, “No I think this is not true, and I’m prepared to say so.”

What needs rethinking in economics?

There’s a lot of stuff that isn’t there – financial institutions, feedback effects. All of this stuff is very, 
very hard. I don’t want to disparage current modelling, but the fact of the matter is it’s all very hard. 
But I do think progress is being made – something has started.

Even before the crisis, there had been growing interest in ideas like behavioural economics ....

That’s right. You have ideas like fractal economics and economics as biology – thinking of economies 
as living systems, in which you have elements competing for scarce resources, and then adapting, and 
then other elements adapting in response. It’s just a different way of looking at these things. The 
problem with classical mechanics is that everything stays the same – it sees economies as being 
closer to a machine than an organism. Things change, and models don’t always get that.

Has economics been too sure of itself?

When I give talks, I very often start off with an epistemological introduction – how do we know we 
know? I like Mark Twain’s quote – “It ain’t what you don’t know that gets you into trouble. It’s what 
you know for sure that just ain’t so.” We’ve been assuming that we understand what’s going on ....

How should this be reflected in the real world?

My attitude has always been that, given how little we know, instead of following a maximizing 
strategy for economic growth, we should follow a kind-of “mini-maxing” strategy – make sure we’re 
not building up risks that are going to come back and cause us enormous problems.

So, these are challenging times for economists. But that’s not necessarily a bad thing. “Academics, to 
be quite frank, sniff an opportunity here – new research, new ideas, new papers,” says Professor Tim 
Besley of the LSE, who was one of the co-authors of that letter to the Queen. “That said, there are 
some economists who think this critique of economists has been overplayed,” he adds. “But in 
academic circles, there’s a mass of opportunity to investigate new issues and to think about old issues 
in a new way...."
By way of conclusion ...

Until 1697, all swans were white. If you lived in Europe, the idea that a swan might not be white was an impossibility, something only a crazy person would think. And then, in that year, a group of Dutch explorers in Australia found the impossible: Black swans.

The black swan has become one of the enduring images of the crisis, thanks in large part to the book of the same title written by the academic and former trader Nassim Nicholas Taleb and published on the eve of the crisis in 2007. Taleb argues that a “Black Swan Event” has three characteristics: It is totally unexpected and impossible to predict from past events; it has major consequences; and it is something humans attempt to explain away in retrospect – “we knew it was coming all along”.

For most of us, the crisis we’ve just lived through was a Black Swan Event: We didn’t see it coming; it will continue to shape our economies for years to come; and, at some level, we may be in danger now of beginning to rationalize it retrospectively – “it was just another recession, these things happen”. To do so would be foolish. This crisis was, in its suddenness and scale, really quite unexpected, and its effects – not least higher unemployment and huge public debts – will linger for years to come. Much as we might like to, it won’t be possible to go back to “business as usual”. Things have changed, and not always in ways we yet fully understand.

The next few years will bring challenges. But, as is often the way, they may also bring opportunities. Perhaps it will be a time when our societies think again about our priorities, about what we really need to achieve with economic growth, and about how we can work with others to tackle shared global problems.

Such opportunities come along rarely. It’s a shame to waste them.

References


OECD Insights: From Crisis to Recovery
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Brian Keeley


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