

Will the West repeat Versailles ?

Asia and the Eastern European nations are in a state of economic turmoil. An important element for improvement is that Western nations open their markets to more trade. This is in fact what the West could have done after the fall of the Berlin Wall. But petty shortsightedness of the governing elites in the West blocks this kind of solution. The situation reminds one of the Versailles peace conference after World War I that fostered a lot of resentment and helped cause World War II. The basis conclusion is that sound economic advice is not listened to. The best advice on how to steer out of the current world macro-economic mess is that every parliament installs a committee to enquire into the process of economic advice. They could study the books by Paul Krugman, and possibly also my analysis on unemployment and my suggestion for an Economic Supreme Court.

Western nations show an inadequate reaction towards the Eastern nations since the fall of the Berlin Wall, and this inadequate reaction is repeated with respect to the current economic throes of Asia. The West displays disinterest in the hardship and actual physical pain inflicted on millions of our fellow human beings, and a neglect of the long run effects of this egotistic behaviour. Part of this inadequate reaction however is also caused by wrong applications of economic theory, so that true compassion that is out there doesn't get the chance to show itself. One lesson is that Western nations are advised to restructure their policy making process so that governments are better served with proper economic advice.

The negligent way that the Western nations treat the other nations reminds one of the Versailles peace conference after World War I. Historians agree about the sad Western attitude at the Versailles conference. The Western Allies humiliated Germany and subjected that country to decennia of economic hardship, purposely crippling its economy. These events caused a huge resentment in Germany, and this fostered the rise of Adolf Hitler. Also, Germany's defaults on its financial obligations were a major cause for the 1929 Crash and the subsequent Great Depression. This episode is another example that two wrongs don't necessarily make a right, and it also shows how wrongs can backlash at the wrong-do-er.

The lesson of Versailles is that opponents can often best be allowed to grow into a relationship of companionship and economic competition and co-operation for the betterment of all. Rather than subdue them or take advantage of temporary weaknesses, they could be helped so that they could help us. This lesson should now be applied to the current situations of Asia and Russia.

It is useful to recall that Western nations were not without proper advice at the time of the Versailles peace conference. They were warned, and by nobody less than J.M. Keynes. As Paul Krugman recently stated about Keynes: "After that war he became famous as the author of *The Economic Consequences of the Peace*, an eloquent condemnation of the vindictive terms imposed on the defeated Germans; his concern was vindicated by the rise of Adolf Hitler, and the memory of his warnings helped convince a victorious America to aid, not punish, its prostrate enemies after World War II."

Indeed, after World War II the Allies helped Germany and Japan to reorganise their countries and to prosper again. While the average citizen may be deluded by sentiments of nationalism, religion or ideology, it normally is a governing elite that abuses those sentiments for purposes of its own grandeur - and once a decent government is in place, there often appears little reason to blame that average citizen for the errors of its country. In the same way post-communist Russia deserves our sympathy, and the same holds for Asia with its different history.

But why has the West forgotten this valuable lesson ? Why do Western governments neglect Nobel Prize winner Jan Tinbergen's work on the Optimal Economic Order, and why do we again have a show of petty egotism and shortsightedness ?

The reason is that the West is not immune to the same 'governing elite' processes that can be at the detriment of common welfare. The governing elites and bureaucracies in the West have agenda's of their own, and though they are restrained by democratic rules, these rules are not as strong as they could be. Our systems of checks and balances are a product of history, and not necessarily of the quality required. Politicians and bureaucrats often still can lie and get away with it. The United States e.g. had David Stockman on the budget deficit, and it took too long before that matter was settled. In general, sound economic advice still is obstructed by political processes, and policies and the electorate itself then grow misguided in their choices.

To better understand the failure of Western democracies on the issue of economic advice, one can best start by reading Paul Krugman's books "The Age of Diminished Expectations" (1990), "Peddling prosperity" (1994), "Pop Internationalism" (1996), and "The accidental theorist" (1997). For example, when Krugman discusses US majority leader Arney's book "The Freedom Revolution", he states: "Arney is no fool. He cannot be unaware that he is fudging his numbers. Possibly he regards a small fib as justifiable in the service of a higher truth. Or possibly he has managed to achieve a state of doublethink, in which the distinction between what is politically convenient to believe and the objective facts no longer exists [sic]. The end result is the same: His book is an effort to obscure the stark realities (...)" (1997:60). Similarly, one can read in the American Economic Review that the US Council of Economic Advisors is rather proud of its achievements in the last decades, but we should be aware that this council is a bureaucratic body, and it hasn't the independent position that could have protected the US economy from the events and errors as are related by Krugman in his "Peddling prosperity" saga or shown by the record of mass unemployment.

Let us now regard what the West could have done with regards to Russia after the fall of the Berlin Wall and the first free elections there - and what could be done now also with respect to Asia. I take my own 1996 paper "Enable Russia to help itself", and quote from its summary: "Western nations in the 1990s hinder trade with Russia and the Eastern nations for fear of unemployment at home, as they did in the 1930s with Germany. If trade were stimulated instead of hindered, Russia could regain economic and political stability by itself. The moral problem is not external and does not concern whether Russia would need financial aid. The moral problem is internal, and concerns whether Western political leaders are willing to face their own errors that cause the present mass unemployment at home."

Clearly, with this being the state of affairs, one can imagine the strength of the forces that prevent a proper discussion of these issues. Western companies embrace tariff barriers to cheap imports - and raise their own prices. Bureaucrats embrace barriers since these give a sense of control, and these also justify the very existence of this bureaucracy. Labour unions will fight unemployment at home with whatever misguided argument it takes. Governments embrace economic tales about 'globalisation' and 'competition from cheap labour countries' since these distract attention from home grown errors, and these governments neglect economists who tell them that 'globalisation' and 'competition from cheap labour countries' are rather like fairy tales indeed. Krugman again uses the term 'globaloney' - and have you heard your President or Prime Minister adopting that critical attitude too ?

The best economic advice for the current situation is as follows - and I urge upon my fellow economists to adopt and spread that advice too: *Every parliament could install a committee that will enquire into the process of economic advice.* This committee could study Krugman's books and my suggestions for a solution of mass unemployment and for an Economic Supreme Court amendment to the national constitution(s). Nothing less will do. Note, by the way, that when countries start installing these committees, the markets will be quick to anticipate the directions of their conclusions, and economic recovery would already set in.

We all know Lincoln's words: "You can fool all of the people some of the time, and you can fool some of the people all of the time, but you cannot fool all of the people all of the time." Let us act upon it, or show Lincoln wrong.

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Some more references

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