

An institutional explanation of structural unemployment of low income labour

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Structural unemployment of low income labour has causes in institutional settings. Directly, there is a systematic error in the co-ordination of employment policy and tax policy. Indirectly, the system of co-ordination shows a deficiency in its capacity to repair systematic errors.

Many people see the cause of mass unemployment in technology and ‘globalisation’, which are factors on the demand side. Others see the cause in high benefit levels or in low levels of education or educationability, which are factors on the supply side. These explanations allow little room for policy making, especially when the benefit level is regarded as social subsistence. There however is a third explanation, one that has been put forward by employees of the Dutch Central Planning Bureau (CPB), first Van Schaaijk in 1983, then Bakhoven in 1988 and Cool in 1989-1996. In this approach the cause of unemployment must be found in policies on taxes and social security, an area where policy can do a lot. In this third approach, technology and trade have reduced the problem of unemployment, since they have boosted productivity. Since the problem lies with labour costs and the demand for labour, supply factors like the benefit level are less relevant. This third approach does not attract much attention. The three authors are little known, even though they at the time worked at a renowned institute.

This paper intends to raise the attention level towards asking the proper questions about current stagnation. The best way to tackle stagnation likely is the institutional approach. The economy and its management can be regarded as a *system*, which system comprises the community of economists, officials, politicians, journalists and ‘the general public’. This paper then proceeds by using Aronson’s book on social psychology to discuss various properties of the system and relations within it, and the behaviour of the participants in the collective decision making on this complex issue. The discussion results into a number of questions for further research.

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Contents

An institutional explanation of structural unemployment of low income labour	1
Contents	2
Introduction	4
1. What is Social Psychology ?	6
Rationality and feeling	8
Institutional realism	9
Economic policy making as an object for the social sciences	10
Historical examples	14
Recent history	16
There is a problem	20
2. Conformity	20
Peer pressure	20
Rewards and punishment versus information	21
Compliance, identification and internalisation	22
The 'uninvolved' bystander	23
Application to stagnation in economic policy making	24
3. Mass Communication, Propaganda, and Persuasion	26
The source	26
The message	27
The receiver	28
A specific observation about television	28
Application to stagnation in economic policy making	29
4. Social Cognition	30
Application to stagnation in economic policy making	32
5. Self-Justification	33
Application to stagnation in economic policy making	34
6. Human Aggression	36
Application to stagnation in economic policy making	37
7. Prejudice	38
Application to stagnation in economic policy making	38
8. Liking, Loving, and Interpersonal Sensitivity	38
Application to stagnation in economic policy making	40
9. Social Psychology as a Science	41
Application to stagnation in economic policy making	42

Conclusion	42
References	43

Introduction

Man is by nature a social animal; an individual who is unsocial naturally and not accidentally is either beneath our notice or more than human. Society is something in nature that precedes the individual. Anyone who either cannot lead the common life or is so self-sufficient as not to need to, and therefore does not partake of society, is either a beast or a god.” Aristotle, “Politics”, circa 428 B.C. ²

Let us regard the economy and its management as a *system*. The system comprises the community of economists, officials, politicians, journalists and ‘the general public’. The system is fed by a lot of human energy, and produces various ‘states of the system’. The state of the system is defined by a vector of indicators. Some such indicators are levels of knowledge and kinds of decisions, while one indicator is given by the level of unemployment. The basic problem then is that the system may get stuck in an inoptimal situation, in particular that unemployment endures much longer than necessary given the state of knowledge.

The problem is empirical. In Holland three economists published separately on unemployment, Van Schaaik (1983), Bakhoven (1988) and Cool (1989-1996). These economists were employed at the highly respected Central Planning Bureau, which is the chief government office in Holland for the co-ordination of Dutch macro-economic policy. Van Schaaik and Bakhoven published in the main Dutch economic journal. Cool (1992a) explains that Holland could have reduced unemployment significantly following the Van Schaaik 1983 article. But Holland didn’t, and still doesn’t in 1996. Van Schaaik once made the statement: “Those who know cannot act. Those who might act, don’t know.” A paper by Cool (1992b) indeed gives a formalisation of that statement.

Cool (1992b) also gives a mathematical theorem and proof that it is cheaper for (normal) welfare states to have people at work rather than having them live of benefit. In other words, it would not cost anything to solve current unemployment in Holland.

Cool’s proof uses different financial regimes that apply to the labour market. The Dutch government administration that came into office in 1994 has enacted a scheme that uses a similar change in the financial regime. That government scheme however is limited to 40.000 jobs, which is 5% of the 750.000 unemployed Dutch that the financial regime change *might* apply to. Apparently there are still forces that prevent its full application. From a scientific point of view, it is very interesting that policy changes so slow. Social science will want to look for explanations. Part of the answer is the complexity of the issues involved. This in fact is the approach in Cool (1992b). However, this part of the answer still is static, for complexity by itself is a static property, and does not refer to forces. The topic of the present paper is dynamics, i.e. we will look for forces - even though those forces oppose one another so that the result is stagnation.

The question that arises next, concerns the usefulness of price analysis to explain the stability of the inoptimal state. In the aforementioned *system* we can see people trading. Hence there are terms of trade, or prices, and those can be subjected to economic

² Text and reference taken from Aronson (1972,1992 cover pages).

analysis. But the results that I am getting, when I stick to such prices only, are not satisfactory in terms of explanatory power and capacity for prediction. Solving unemployment would save Holland at least \$10 bn annually. These bn's apparently are the price of neglecting economic advice. One may wonder whether Van Schaaijk has earned that \$10 bn by himself, or whether it should be shared among those three economists - i.e. \$3.3 bn each annually, though they might settle for one time only. The present situation is rather reversed: these economists are almost in the position that they have to pay to get listened to. I tend to conclude: price analysis does not bring us further. To get better results, I am willing to consider the possibility that we must include variables like 'status' and 'reputation' as part of the explanation. If a full-powered government administration, newly in place, that in its official capacity - and in its first 100 days - has expressed to want to generate as much employment as possible, has a span of control of only 5%, then three small fry economists certainly amount to nothing. To remain rational I have to look to social psychology for part of the answer. Moreover, there's a clear inspiration. When we want to explain the movements of the planets around the sun, we do this in terms of forces, which forces can already be studied with objects in the environment close by. We then presume that 'distance' has no influence on 'matter', etcetera: and the proper way to proceed is by making those presumptions explicit so that they can be tested.

Thus, to the state vector of the system we add an indicator for the status of all participants in the social 'pecking order' or '(Elo-) ranking'. The status indicator is important, in that actors look at their own status and the status of other actors when they judge on opinion and behaviour, i.e. judge on the state of the system. One of the things that we can ask then is: might "status" explain the stagnation ?

The exposition proceeds as follows. I've taken the sixth edition of Elliot Aronson (1972, 1992), "The social animal", including its companion Aronson (1973, 1992), "Readings about The Social Animal", that contains reprints of seminal papers in social psychology.³ "The social animal" is a qualitative and analytical review that doesn't state parameter sizes and confidence intervals. In the present state of my analysis I am quite happy with this approach, and I appreciate that Aronson provides us with a selection of main results in social psychology. "The social animal" contains nine chapters, and for each chapter I have made a section in this paper where I can discuss the perceived relevance for my current problem. Extensive quotes are required to allow for the subtlety of argument. Here (A:p) refers to pagenumber *p*.

I'm well aware of the arbitrariness in taking Aronson's book rather than some other of the possibly thousand alternatives - e.g. Wilson (1993). The idea here is that as when Columbus set out to discover a route to India and China, it didn't matter much whether he took off from Spain or from somewhere else in Europe, as long as his course was westward. And don't tell me that Columbus didn't find a route to India and China and only discovered America: for a route was found, only it took a detour along Cape Horn or the digging of the Panama Canal.

Let me end this introduction with the comment that I'm very much an economist. I tend to reduce everything to economics since economics is a very efficient science. If concepts are useful, then they can be integrated into economics. Other sciences would benefit if they dumped their idiosyncratic phrases and re-adopted the efficient language

³ An argument that uses authority, is: The publisher is W.H. Freeman & Co., and the cover of the book contains a quote from Contemporary Psychology: "The ideas [Aronson] so eloquently presents are timeless in the field of social psychology... *The Social Animal* is a masterpiece."

of good old economics (also known as ‘philosophy’). So, when I pose the question whether we should look into sociology or social psychology, then this is rhetorical. We can use the findings and phrases of these ‘non-economic’ fields, in the same way as we can walk in the rain just to better appreciate a walk in the sun. It must be mentioned, though, that I did find, to my surprise, a lot of economics within social psychology. At least, Aronson uses the ‘*ceteris paribus*’ clause often, and speaks of gains & losses and of maximisation.

1. What is Social Psychology ?

What is social psychology ? Note that definitions of research fields are primarily useful to distinguish these fields from one another. Now, we want to distinguish social psychology from e.g. biology and literature. An example is the phenomenon that people start sweating under hard physical exercise: and this is not considered part of ‘behaviour’ in the sense of social psychology. Of course, once the field has been chosen, and once we sit down in the classroom and listen to the lectures, we will find that it actually is quite difficult to describe the field accurately. Aronson, a specialist of the field and familiar with the pitfalls of defining - and an author who knows that you have chosen his book - does not give a definition but lists a number of exemplary cases:

“What is social psychology ? There are almost as many definitions of social psychology as there are social psychologists. Instead of listing some of these definitions, it might be more informative to let the subject matter define the field.” (A:5)

There is no space here to restate all these examples. Thus, allow me to try: Social psychology may be regarded as the scientific study of the formation and change of opinion, attitude and behaviour of interacting individuals. Sociology is the same study but concerning large groups only. My reason to start out with this definition is that it helps to distinguish three basic components:

“an opinion is what a person believes to be factually true. (...) An opinion [TC: this should be ‘belief’] that includes an evaluative and emotional component is called an *attitude*.” (A:111-112) (also A:135: “stored evaluation”)

“According to William James, [reference] an emotion has both a “feeling” content and a cognitive content.” (A:31) and “there are no foolproof, mutually exclusive definitions of “emotional” and “rational”.” (A:84-85)

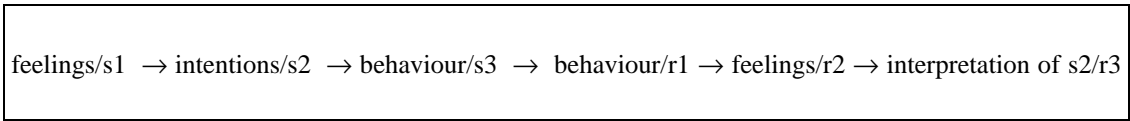
While opinions concern facts, feelings may still be involved in the formation of them. An opinion is a result or a state, and not a process.

“Compared to opinions, attitudes are extremely difficult to change. (...) In order to understand how to change attitudes, first it is essential to understand the complexities of human thinking as well as the motives that lead people to resist change. (...) chapter 4 is an attempt to understand social events; chapter 5 is a description of the major motives underlying construal and misconstrual.” (A:112)

It is useful to draw a diagram of the forces under consideration. We have at least one sender (*s*) and at least one recipient (*r*), and when they interact they have feelings, intentions or interpretations, and actual behaviour. Figure 1 shows a “chain of action”, here in only one direction, and the chain is useful to make us aware of the various possibilities for error or distortion along any point in it. Further, both *s* and *r* have personal characteristics, for example in status or self-esteem, and a memory of their

investments and possibly sunk costs - and those characteristics affect the kind of action and reaction.

Figure A: Chain of action



It is useful to state a reminder:

“Aronson’s first law: “People who do crazy things are not necessarily crazy.””
(A:9)

Let us end this introduction with a long quote concerning a prime example of the subject and method of social psychology:

“Think of a prison. Consider the guards. What are they like ? Chances are, most people would imagine prison guards to be tough, callous, unfeeling people. Some might even consider them to be cruel, tyrannical, and sadistic. People who take this *dispositional* view of the world might suggest that the reason people become guards is to have an opportunity to exercise their cruelty with relative impunity. Picture the prisoners. What are they like ? Rebellious ? Docile ? No matter what specific pictures exist inside our heads, the point is there *are* picture there - and most of use believe that the prisoners and the guards are quite different from us in character and personality.

This may be true, but don’t be too sure. In a dramatic piece of research, Philip Zimbardo and his students created a simulated prison in the basement of the Psychology Department at Stanford University. Into this “prison” he brought a group of normal, mature, stable, intelligent young men. By flipping a coin, Zimbardo designated one-half of them prisoners and one-half of them guards, and they lived as such for several days. What happened ? Let’s allow Zimbardo to tell us in his own words:

“At the end of only six days we had to close down our mock prison because what we saw was frightening. It was no longer apparent to us or most of the subjects where they ended and their roles began. The majority had indeed become “prisoners” or “guards”, no longer able to clearly differentiate between role-playing and self. There were dramatic changes in virtually every aspect of their behavior, thinking and feeling. In less than a week, the experience of imprisonment undid (temporarily) a lifetime of learning; human values were suspended, self-concepts were challenged, undo the ugliest, most base, pathological side of human nature surfaced. We were horrified because we saw some boys (“guards”) treat other boys as if they were despicable animals, taking pleasure in cruelty, while other boys (“prisoners”) became servile, dehumanized robots who thought only of escape, of their own individual survival, and of their mounting hatred of the guards.” [reference]” (A:10-11)

Rationality and feeling

The distinction between rationality and feeling is prerequisite to social psychology. For example, in philosophy we establish that there is a gap between Is and Ought. It are scientists who do research on reality, and it are politicians who decide what to do.

However, theory isn't life. There is a difference between *the analysis* and *the concrete*. There is an analytical gap between Is and Ought, and there is a distinction between rationality and feeling, but in real life they always come and go together - e.g. as emotion. Moreover, they also come and go together in man's perception. Perception is important. In practice, science is an irrational process; it is only reconstructed to rationality after the events. And sometimes politicians can be rational, even when they are not supposed to.

There exists one special emotion: the one that appears to depend on information management.

Man is an information processing creature. Information seldom is neat. E.g. lightning only provides the flash, and not the mathematical equations - for its speed, direction and impact - to tell us that it doesn't come from some angry spirit. That information isn't neat, means that it often comes with conflicting concepts. On the other hand, identity or the self-concept may come from the (desire of) consistency of beliefs. An inconsistency might be perceived as an assault on existence. If I were to believe 'the moon is round' and at the same time 'the moon is square', then I would not be consistent, and then it would become a relevant question whether the 'I' exists in a meaningful manner.

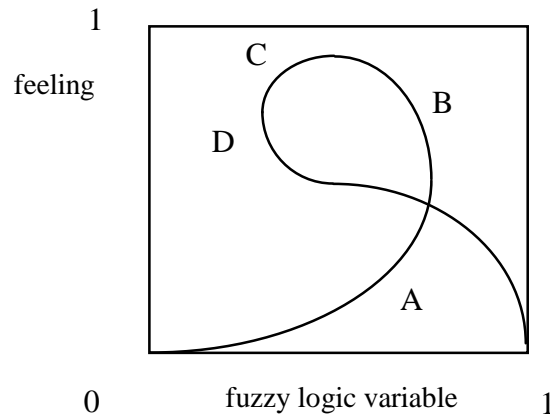
"Called the theory of cognitive dissonance, it is, as theories go, remarkably simple; but - as we shall see - the range of its application is enormous. (...) cognitive dissonance is a state of tension that occurs whenever an individual simultaneously holds two cognitions (ideas, attitudes, beliefs, opinions) that are psychologically inconsistent. (...) Because the occurrence of cognitive dissonance is unpleasant, people are motivated to reduce it; this is roughly analogous to the processes involved in the induction and the reduction of such drives as hunger or thirst - except that, here, the driving force arises from cognitive discomfort rather than physiological needs. To hold two ideas that contradict each other is to flirt with absurdity, and - as Albert Camus, the existential philosopher, has observed - humans are creatures who spend their lives trying to convince themselves their existence is not absurd." (A:174-175)

It is useful to see feeling and rationality as different *dimensions* rather than opposites to one another (in only one dimension). Figure 2 is an example, in which we take measures in both ⁴ dimensions to run from 0 till 1, so that the logical dimension concerns a fuzzy logic variable. Let us suppose that a subject gets an idea, and that this idea passes through various stages in his or her mind. Let us take an entirely logical idea, like '1+1=2' or 'The Dutch welfare state can solve unemployment without costs'. A possible path is given in figure 2. (A) In the first stage after the conception of the idea the logic and the feeling both grow. (B) In the second stage the feeling keeps growing, but at the cost of the logic. (C) There may be a third stage, in which the feeling lessens while also the logic is somewhat reduced. (D) Finally there is the stage where the logic moves to full consistency while the feeling lessens and is reduced to zero. Note that none of these stages need to be smooth, and there can be cycles and epicycles, and dead ends.⁵

**Figure B: Possible evolution of an idea,
scored on logic and feeling**

⁴ Though emotions likely do not have a natural 'zero' starting point.

⁵ As remarked earlier: "attitudes are hard to change". So the volatile emotion depicted here is less likely to be called an 'attitude'.



Social psychology also is psychology. Aronson states: “Psychologically one of our major goals is maintaining and enhancing our view of ourselves.” (A:162). Here he refers to William James:

“The social self ... ranks higher than the material self We must care more for our honor, our friends, our human ties, than for a sound skin or wealth. And the spiritual self is so supremely precious that, rather than lose it, a man ought to be willing to give up friends and good fame, and property, and life itself. [reference]” (A:162)

It may be noted that these insights will have some consequences for economics. Economists in applied research commonly use utility analysis for physiological needs only, and neglect psychological factors like status and cognitive dissonance that apparently can be relevant too; perhaps more relevant if people have enough food anyway. In above diagram, with l for the logic, f for feeling, and t for time, we could have a utility surface $U(l, f, t)$ and developments might be aggregated over individuals to get macro-effects. We can add status indicators for oneself ss and others so (average), giving $U(l, f, ss, so, t)$ Note: an economic point is whether emotions are ‘scarce’. Note: pioneer names are Katona and Tversky & Kahneman.

A useful insight in this realm is that science itself could be seen as organised behaviour towards minimisation of cognitive dissonance.

Institutional realism

We accept ‘gravity’ as real, even though we do not actually see it but only its emanations. In the same way we might accept certain institutional forces as *real*. And then really in the sense of ‘real’. Thus, something is to be said for ‘institutional realism’, see Grafstein (1992).

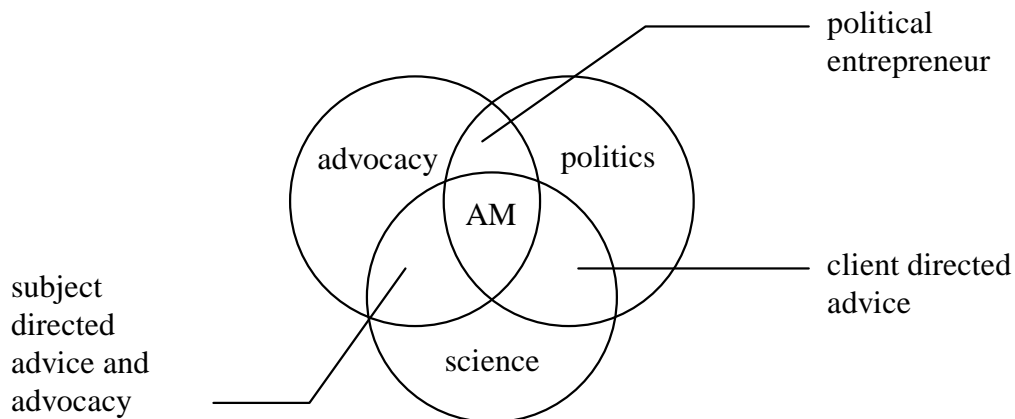
However, I’m hesitant on this. Actually, I think there need not be much discussion about it. It suffices to restate that we use models to explain reality and to make better forecasts. For physics the reality is in falling objects, for social science reality is in the proceedings and utterances of people. There certainly is a parallel between the use of the word “gravity” in physics and the word “institutional forces” in social analysis, but nothing seems to be gained, and much time is lost, by delving into that parallel. Let’s just make a good model.

Economic policy making as an object for the social sciences

We want to apply social psychology and sociology to a specific social system that has economic policy making at its focus. The system comprises the community of economists, officials, politicians, journalists and ‘the general public’.

Our system is quite complex. A scheme by Throgmorton (1991) comprises only a subsection of our system - it concerns only scientists, politicians and advocates - but already shows a high degree of complexity. Throgmorton's scheme is reproduced in figure 3. The role that combines all three aspects of science, politics and advocacy is called ‘active mediator’ (AM). The combination of advocacy and politics gives rise to ‘political entrepreneurship’. The combination of science and politics will tend to show client directed advice, while science and advocacy will tend to show subject directed activities (e.g. on the environment, health, and the like).

Figure C: Scheme by Throgmorton



Instead of looking at science in general, we regard economics only. It happens that economics had a long tradition of catering both to science and to its various uses in society. Economics is both a science and a discipline - where a discipline is characterised by having a profession and a ‘state of the art’. By this characterisation I partly hope to answer to the statement by Hicks (1983:365): “it is a besetting vice of economists to over-play their hands, to claim more for their subject than they should.” The science part of economics can be very academic and skeptical, as befits a science. But economics is also applied in business and government. Here there are pressing needs that cannot wait for academic discussion. To deal with urgent decisions, society has accepted the use of ‘professionals’, and professional training where people learn the tricks of the trade. In their professional attitude, economists are alike doctors or judges. They do the best they can. This then should not be regarded as “overplaying one’s hand”.

The study of economics and surrounding society - it may be called meta-economics - is not an unknown phenomenon, partly since many economists reflect on it. This is not to say that meta-economics is being practiced systematically. But we can find, for example:

- on the ideas and lives of economists: Heilbroner (1953), Blaug (1988) and Szenberg (1992).
- on Keynes: Workswick & Trevithick (1983) and Skidelsy (1975, 1983, 1992)

- on economics and its economists, in various detail, and with some development in attention: e.g. Nentjes (1971), Johnson (1975), Hicks (1983), Okroi (1988), Colander & Coats (1989), Pechman (1989), McCloskey (1994).

This literature generates a more general impression that “there was not invariably a straightforward development in economic science, where the sharper insight always triumphs directly and inexorably” (see below, Nentjes (1971:134)).

With the stage set, we now focus on the ‘reception’ of the analyses by Van Schaaijk, Bakhoven and Cool. We look at the various actors within the system, and their social psychological scores.

Table 1 contains a list of Dutch economists, their background, and their proposed method of tackling unemployment. We also table everyone’s position on the topic of “General Application of Collective Bargaining” which topic has a dividing impact on Dutch debate. We also mention possible idiosyncrasies that may hinder potential partners to find each other, for example on the European Monetary Union (EMU).

We see that all 18 listed persons have (slightly) different positions. Closest to each other may be Siebrand and Kolnaar, who recently participated in a joint proposal to the Social Economic Council (Dutch: SER). The most influential on policy, Kolnaar and Zalm, differ on the GA of CB. The original authors Van Schaaijk, Bakhoven and Cool are divided too. One of the major points in this table is that only Cool holds that there is a Pareto Optimising approach to unemployment. Note though that Van Schaaijk and Bakhoven may not have studied Cool’s work, which is of a later date. Since Cool met with obstruction of his work by the CPB management, and e.g. was put apart in a separate room at the CPB, he has abstained from involving CPB colleagues in his work - and has not met with interest.

The list also contains two indicators on the status in ‘Active Mediation’ (one for the current status and one as it optimally should be, both on a scale from 0 to 10) and one on the attitude to communication. The scores have been assigned by this author and not by an impartial jury. I would like to see a jury score; but lacking one, I’ve guessed at such an outcome. The scores show that university professors and people who have come up with their own solutions to unemployment often appear to be bad listeners. It seems as if they have struggled to get to the top - well, got published and mentioned here - but found their very own hill-top, and thereby have created more distance to the mountain. There can be a natural cause of fragmentation, and that is one argument for an Economic Supreme Court, see Cool (1996b).

Note that we actually should place the subjects in the various slots of the Throgmorton diagram, score the status in the respective domains, and weigh by importance of the domains. For present purposes it however suffices to assign quick averages. For example, while Klamer is a 9 in science due to his international recognition, he also stands low in labour economics and quantitative policy analysis, and is perhaps only a 4 in Dutch politics; so I average him a 6 on ‘Active Mediation’. Obviously, these considerations show that these scores - and Throgmorton’s diagram itself - are first indications only.

Table A: Analyses, positions and attitudes

	<i>background</i>	<i>status</i>	<i>attitude</i>	<i>method</i>	<i>GA of CB</i>	<i>idiosyncrasies</i>
Adriaansens	academic ⁶	6	p, i	lower minimum	?	sees costs, not PO
Bomhoff	academic	7	p	subsidy	contra	local communities
Bakhoven	(ex-) CPB	3, 7		mix	?	sees costs, not PO
Cool	(ex-) CPB	1, 10		no tax	pro	PO
Degenkamp	academic	4	p	subsidy	?	contra EMU
Elswijk, Van	organisation consultant	2, 4	i	mix	?	VAT instead of income tax
Goederen, De	retired civilian	0, 1	i	mix	contra	pensions
Klamer	academic	6, 8		subsidy, NIT	?	contra work ethic
Kolnaar	academic ⁷	8, 6	p	subsidy, lower benefits	pro	sees costs, not PO
Pen	academic	9, 7	p	mix	?	sees costs, not PO
Ploeg, Van der	academic	8, 7	p	mix	?	M. of Parliament
Schaaijk, Van	(ex-) CPB	4, 8		mix	?	sees costs, not PO
Schilfgaarde, Van	academic	3	i	subsidy	?	sees costs, not PO
Siebrand	academic ⁸	6	p, i	subsidy	?	dual labour market
Theeuwes	academic ⁹	7	p	lower minimum	contra	all else higher
Ven, P. van de	journalism	4, 6	i	subsidy	?	sees costs, not PO
Wijnbergen, Van	academic	8	p	lower benefits	?	contra subsidies contra EMU
Zalm	bureaucracy ¹⁰	10, 6	p, i	low NIT	contra	less social security

Legend

GA of CB: “General Application of Collective Bargaining”. Under this (existing) rule, the government applies the results of a sectoral CB to the whole of the sector. Employers or employees who do not partake in that CB directly, then still are committed to it. The debate is whether this rule makes for a stable or stagnant economy.

p “I am the professor” - attitude; score given by this author

i “I am the inventor” - attitude; score given by this author

mix here, this mix concerns only subsidies and lower taxes

NIT negative income tax

PO Pareto Optimal (or optimizing change) - “Some advance, not at the cost of others”

EMU European Monetary Union

⁶ Member of the Scientific Council for Government Policy

⁷ Member of the government advisory Social Economic Council

⁸ Member of the government advisory Social Economic Council

⁹ Member of the government advisory Commission Andriessen

¹⁰ Made his career as director for General Economic Policy at the ministry of Economic Affairs, where he originated the debate on the GA of CB. Thereafter director of the Central Planning Bureau, and he currently serves as Finance minister. His NIT is a relatively low (poor) basic income.

Historical examples

Our prime case is that the analysis of Van Schaaijk, Bakhoven and Cool does not get sufficient attention. It is useful to show that this situation is not unique. Other examples can be taken from the history of economics. The following five example issues are old, but have the advantage that there is little controversy about the content of the contribution. Of course, there can still be controversy about what these examples actually signify: what is the influence of reputation, what is the responsibility of the author in peddling his findings - in the proper language, for the proper audience, and with the proper mix of honey and acuity ?

- **Slutsky**

Slutsky, a Russian, published a core result in 1915 in an Italian journal. Unfortunately, perhaps because of the war, it did not have an impact. Hicks & Allen rediscovered that result almost 20 years later, in 1934, while working at one of the intellectual centers of the British empire. Historians appear to agree on the independence of the discovery. Hicks (1981:3) gives a short evaluation of his rediscovery:

“This essay (...) was a co-operative work, in more than one sense. Not only did it have two authors (...); not only was it the product of discussions, in which several others took part, in the Robbins seminar at LSE; it also reckoned, quite explicitly, among the things which gave rise to it, Joan Robinson’s definition of the elasticity of substitution (e.s.) and a question about complementary goods that had been raised by Henri Schultz (of Chicago). It is thus not surprising that it made a noise in the world of economists; it did not fall flat, as the parallel work by Eugen Slutsky had done, 20 years before. How Slutsky, a Russian, came to publish his paper in an Italian journal does not seem to be known; neither in Italy, nor in Russia, nor anywhere else, did it make any impact. It had to be rediscovered after our work had come out.”

Nentjes (1971:134) explains that well-known Italian economists Pareto and Barone had published on the subject, before Slutsky did in 1915. So an Italian publication is not quite surprising. Nentjes comments (my translation):

“This example illustrates that there was not invariably a straightforward development in economic science, where the sharper insight always triumphs directly and inexorably.”

- **Dupuit**

Hicks (1983:329-330) reviews a 1934 republication (notably in Italian) of Dupuit:

“Of all great economists, Dupuit must have been one of the most unfortunate in the manner of publication of his work. It has long be recognised that he deserves a place with Cournot and Gossen among the most important forerunners of the modern theory of exchange value, but so long as his work remained hidden away in ancient and dusty volumes of the *Annales des ponts et chaussées*, his readers must have been few and far between. (...) Reading these essays in so pleasantly readable a form, one is impressed by the excellence of the writing. It was not obscurity which prevented Dupuit from revolutionising economics. If only he had not hidden his light under a bridge, Jevons might have found himself twenty years out of date.”

- **Jevons**

On Jevons, Hicks (1983:331) continues on the next page:

“It was the *Serious Fall* which gave Jevons first recognition (...) But it was the *Coal Question* which made him a public figure. When he came to submit his application for the Chair at Manchester (in 1866) he could attach a galaxy of testimonials. (...) but it was *Coal* which enabled him to attach the glittering names of Mill and Gladstone. (...) It was from the eminence which he had reached in that way that he was able to launch his Utility theory.”

However, again we find Nentjes writing in slight disagreement. Hicks’ judgment on his fellow countryman Jevons may be biased; Nentjes (1971:70) states (my translation):

“Marginal utility analysis was introduced in England (...) by Stanley Jevons and Alfred Marshall. Jevons opposed himself strongly against the honoured masters Ricardo and Mill. Jevons didn’t cause a school. He may have been the victim of the English sense of tradition. Marshall, who pretended that he gave a more detailed explanation of the ideas of the classical masters, was more successful. ‘It’s all in Ricardo’, was the description that answered to the contents. *Marshall’s theory indeed presents a synthesis between elements of classical theory and marginal utility analysis.*”

- **Tinbergen**

Knegtman (1989:71-74) relates of Tinbergen and the Dutch Social Democratic Party (‘SDAP’) in 1932 (my translation):

“Tinbergen’s work was a breakthrough for the development of econometrics. For the SDAP the results of his work were highly important too. By his integrated approach of some traditional SDAP-demands and his new ideas to battle the crisis, he was far ahead of the Parliamentary delegation of the party, that was primarily occupied with the consequences of the crisis. Tinbergen had been asked for the committee on socialisation because he was an expert and had something to offer. However, his ideas did not get much recognition, far from that. The labour union congress had been very skeptical. [reference] De Wolff seemed to be more respected by the SDAP leadership. Boekman even went so far as to call Tinbergen a dilettante in economics.”

Knegtman then mentions a proposal by Tinbergen on June 14 1932 that we can recognise as plain Keynesian: subsidies to fight unemployment, public works to dampen the cycle, and adoption of the 40 hour week.

- **Keynes**

Robert Skidelsky (1975:89 & 102-103) relates of the reception of the Keynesian revolution:

“In his biography of Keynes, Sir Roy Harrod reports a widely acclaimed speech delivered by his subject to the House of Lords in 1946, the year of his death. ‘But Keynes had been talking in this style ... for some twenty-seven years. Why had his words not been listened to ?’ (...) Unemployment as a problem in economic theory may have been sufficient to produce a revolution in the discipline; unemployment was not a sufficient problem to society to produce a revolution in political ideas. If it was not the prolonged experience of mass unemployment that finally broke the hold of nineteenth-century ideas, what was it ? A strong case can be made out for war. ‘Normal’ life could coexist with unemployment; it could not with modern war.”

Note that Keynes was never a full professor.

Recent history

Economic advice for national governments is in shambles. We make do, but it is not a pleasant sight. Most citizens are rich and grow richer every year, but too many are poor and remain that way needlessly. From 1929-1942 we had the Great Depression, from 1965-1996(+) we have the Great Stagflation, we're not dealing well with the Russian advent, etcetera. The root of the problem is not the quality of economic knowledge and advice, but a structure of decision making that gives too much room for noise, and that prevents that sound advice percolates into decisions. My advice is to adapt the 'trias politica' structure of national decision making, see Cool (199b). Note that this can be done in a democratic fashion; my proposal is a 'high definition democracy'.

Let us regard the current situation. The US President has his Council of Economic Advisers; and in the same manner Dutch government has its Central Planning Bureau (CPB). We now focus on Holland.

The directorate of the CPB has the special claim that the CPB is a scientific institute. But it isn't. The 'lower ranks' of researchers at the bureau officially have a scientific status; but there is a 'managing hierarchy', and general proceedings are not scientific. Special is, too, that the directorate abuses its position, to influence and direct the material content of the scientific discussion.

The present director, Henk Don (1996:3), recently gave his mission statement:

“CPB Netherlands Bureau for Economic Policy Analysis was founded fifty years ago as the Centraal Planbureau (Central Planning Bureau), with Jan Tinbergen as its first managing director. Despite its name, economic planning was never part of its work. Rather, the Bureau provides independent forecasts and analyses that are scientifically sound and up-to-date and that are relevant for the policy decisions of government, parliament, and other societal organizations such as political parties, trade unions and employer's associations. The CPB combines two tasks that tend to be separate in other countries: it is the accounting center for budgetary and economic policy and a research center preparing independent forecasts and analyses. As part of the Ministry of Economic Affairs, the Bureau has access to confidential policy information and hence can provide up-to-date assessments of policy options contemplated in the Cabinet. At the same time, the independent status of the Bureau secures the confidence of the other ministries in its assessments. Remember that Dutch cabinets are always coalitions of different political parties. How can the CPB be independent and yet be part of the Ministry of Economic Affairs? Independence is essential for the Bureau's survival, so we are keen on guarding against political interference. The Cabinet does not interfere with the work of the Bureau, but occasionally it does take a different view. Ultimately, the independence of the Bureau is best safeguarded by the scientific quality of its work, which is open for scrutiny by the public and the scientific community.”

I propose that the public and the scientific community indeed investigate the abuse of power by the directorate concerning my analysis. Note that this will be a costly and time-consuming affair.

Before I say more on that abuse of power, let us first discuss Don's claim. Note that science implies independence, so that we can limit the discussion to the scientific base. The claim of the scientific status of the CPB is in conflict with the Dutch law of 1947 that founded the CPB, cabinet statements, parliamentary debates, and the official

regulation of the Ministry of Economic Affairs. The claim is in conflict with the actual situation concerning and within the bureau. Dutch economists do not generally regard the bureau as a scientific institute.

My proposal has been to have a parliamentary investigation. Parliament might be persuaded to provide a real scientific base to the bureau. Rick van der Ploeg (1992:280) reacted to this: “The proposal to make the bureau a really independent scientific institute is straightforward and should be acclaimed.” (my translation).¹¹

How did the CPB get into this fix ? In 1989 the CPB got a new director, Gerrit Zalm, who originated from the bureaucracy of the Ministry of Economic Affairs. Zalm has many qualities; he now is Dutch Minister of Finance, and he is internationally known as the chairman of G10. In 1989, in his new capacity as CPB director, Zalm issued above statement of the scientific independence of the CPB for the first time in the history of the CPB. The statement appeared in a small folder, was not discussed in parliament, and there was only limited discussion within the bureau. It is not clear what motivated Zalm and the top echelon at that time. They may really have thought that they knew what science is. Or the strategy may have been to present a ‘fait accompli’ - so that now, in 1996, one may refer to that document of 1989, and claim: “But the CPB has always been a scientific institute!”

Of course, the CPB has never been a scientific institute. Some is reflected in Don’s unease about the name of the bureau, which official name in these days often is a source of fun for foreigners. Personally I think that ‘planning’ can be used in the meaning of forecasting and policy analysis. So the real cause of the problem lies somewhere else. Since the foundation days of the bureau with Jan Tinbergen, the mission of the bureau has been to advise and serve the government by accepting stated policy and forecasting conditionally on the success of government policy. The crucial point here is ‘success’. What if policy will have no success ? What if the cabinet publicly says that it intends its policy to be successful, though insiders know that success is unlikely, and especially unlikely given possibly hidden intentions ? In these cases, a good forecast will differ from a forecast conditional on policy success. Both forecasts can be given while using methods that are based in science. But only one forecast is properly scientific - and the scientific forecast is not provided by the CPB.

Let me mention one recent development. Up to 1993 or so the bureau gave only one forecast. Since then it has become practice to present two scenario’s: one ‘optimistic’ and one ‘careful’ expectation for the future. The range tends to be a sink for all kinds of causes that make that a realisation differs from its expectation. It seems as if in this manner the problem of the conditional vs unconditional forecast has been solved too. However, I have to maintain that a model with an endogenous government would generate different ‘optimistic’ and ‘careful’ trajectories.

Let us now discuss the abuse of power. To start, one must understand that the Dutch legal system is particularly weak in labour relations. There are many regulations, and it is often said that the system is ‘rigid’ and provides ‘too much protection’. This is not relevant here. The many regulations raise the cost of dismissal, but do not really prevent

¹¹ A point is, tough, that Van der Ploeg is less reliable. He became Member of Parliament for the Labour Party (PvdA) in 1994, and an impression is that he already adapted his position before the list of candidates was drafted. It is a bit strange that in the membership list of the Council of the European Economic Association, which is a scientific association, Van der Ploeg is listed as “MP”; but the idea may well be that it might be misleading to only state that he is an Amsterdam University professor too; so I agree with this general warning.

it. It are unique cases when judges will not accept a dismissal, and when a person can retain his or her job. One common procedure is that the court will rule that relations have become too much strained - and the judge will use the very existence of a court case as the prima facie evidence that relations have become too much strained. Importantly, while procedures make dismissal somewhat costly, costs don't matter for the government. Officials in command are secure in their knowledge that they can always fire any person, and hire as many lawyers as required to do the job. One difficulty here of course is that 'management' claims the position of the 'employer' who hires the 'employee' - so that the rhetoric of a private contract is adopted - while civil servants and especially scientists play an altogether different ball game, i.e. scientists have their professional integrity and civil servants are guardians of the general interest (up to a level, of course).

Per October 1 1989 I entered my 8th year at the bureau, and got my annual pay rise (2 steps up the ladder). At that time an administrative regime switch occurred, with the pay rise date moving forward. On October 17th my section head proposed another normal raise (2 steps up) for March 1 1990. Early December I was notified that I got only 1 step, and my section head mentioned in that context that an internal note that I had written in November had not been well received by the directorate. This explanation however has never been put on paper.

To make a long discussion very short:

- On my request, an official statement was made about my personal functioning (known as FPB), on January 31st 1990. My professional knowledge was considered above average, but there were negative elements on behaviour that 'justified' the decision on pay. After a long journey through the courts, the FPB was annulled by the High Court of Appeal in May 1995. A new one is to be made, and I am now waiting for it.
- On April 18 1990 I was placed out of my section and work, and into another room, with no normal working contact with the other colleagues of the bureau. The directorate used a general article, for which there is no possibility of appeal. The lower (and internal) Commission of Appeal accepted this in January 1991. But the normal court annulled it in December 1993, correctly judging that the use of the general article was an abuse of power, since the directorate showed intentions of disciplinary action. Till this day no actual reason has been given, however, why any disciplinary action should be given. Given the lack of an official statement, there has been no possibility for me to defend me against the fact and annulled decision to put me out of my section, work and office.
- In May 1990 I was informed that the directorate considered to fire me on terms of incompetence. However, it was offered that I could leave the bureau in an agreeable manner if I was willing to cooperate - which meant withdrawal of my appeal on the FPB. I could stay for a full year, find another job from a working position, get help at that, and if that didn't succeed, dismissal would be on 'incompatibilité des humeurs' with retention of a good benefit. My decision was to wait for the results of the appeal.
- On June 5th 1990 the directorate blocked the publication process (internal distribution, discussion, refereeing and likely publication) of my analysis on unemployment and the structure of decision making. At a conference at that time, in Maastricht, my presentation met with strong approval of R. Meidner, one of the founders of the Swedish welfare state. However, the CPB directorate blocked the publication process. The lower and internal Commission of Appeal accepted this in January 1991, saying that the CPB didn't have to publish, and that the decision was

‘not amenable to appeal’. In December 1993 the normal court annulled that decision, correctly judging that scientists should be able to publish, so that the decision of the directorate was ‘amenable to appeal’ indeed.

- Now that admittance had been established, the directorate gave a reason, and that was that my paper was of ‘insufficient quality’. However, my request had been to have an internal distribution and discussion first. An internal distribution had been allowed in December 1990, after the session of the internal Commission of Appeal. What now must happen is an internal discussion. I insist on the possibility to have that discussion - a decent room and a decent time, with whoever will want to show up - since my paper also discusses the CPB and other matters that concern my colleagues. The decision not to publish is premature. A commission of scientists - of the Dutch society of sociologists and cultural antropologists NVMC- have looked into this, and have judged that it seems that there has not been enough room for discussion. This commission of scientists refers to a letter in which the directorate explicitly states ‘to disagree with the content of the paper’. However, a court decision of December 1995 does not distinguish between ‘publication’ and ‘publication process’, and allows the directorate the decision not to publish what they consider to have low quality. The court neglects, too, the difference between management and an independent editor. This court decision presently lies before the High Court of Appeal.
 - In 1991, after the strange result at the internal Commission of Appeal, I brought the matter into the open at a public session of economists, and then the directorate chose to fire me. In the dismissal discussion, the argument was used that I had attacked the integrity of the director. However, some economists that were present have testified differently, and the official argument now states that I would be ‘incompetent’. The court of December 1993 and the High Court of Appeal of May 1995 accepted this dismissal. I would be ‘incompetent’, though only with regard to team play and obedience. This of course is an outrage. I have obeyed the directives given to me, except of course the demand to be silent, to repeal my appeal, and to leave. Also, there has never been an investigation of my section and its management, even though I have asked for such an investigation from the start. I think that hearing my colleagues will show that I am a decent team player. Note that I have not asked them to testify for me, since I do not want to put them into that position. They are witnesses to the situation and not ‘my’ witnesses. My line has been to keep a low profile, to ask for a full investigation, and to explain that it is an abuse of power when weak employment regulations are used when the problem is quite different.
 - Though it is being granted that I am a skilled econometrician, I was not allowed to actually compute my solution approach to unemployment. Use was denied of the mainframe and the sectoral model Athena that I helped building and completing.
 - I’ve been fired without proper references and unemployment benefit, falling back to the lowest level of support of the Dutch welfare state - where the benefit will be recovered from the surplus value of the house. Time and money goes to lawyers. Trying to find a new job has been very time consuming, but, luckily, I have been able to get some temporary jobs, though not in economics (and not at all in macro-economics).
 - Notice that I’d rather not speculate about the motives of the directorate to pursue its line of action. It suffices to judge actions against the proper rules of science.
- Now, how is it, that all this could happen, and still has not been stopped ?

There is a problem

I visited Jan Tinbergen in 1993, explained the situation, and summarised it as: “There is a problem.” Jan agreed. “Perhaps we should have been stricter in the past,” he said. “But you will allow me to say that this is a problem that the younger generation must solve.” He was almost 90, and I enjoyed his smile.

There is a problem. Of course, we want to get beyond that summary, and we want to identify forces, model them, and use the model. In the following I will proceed by identifying forces. However, the main point remains that questions are being asked. This paper will be adequate if its readers begin to see that there is a problem.

2. Conformity

“One consequence of the fact that we are social animals is that we live in a state of tension between values associated with individuality and values associated with conformity.” (A:13)

Peer pressure

“But we can use synonymous words that convey very different images. For *individualist* or *nonconformist*, we can substitute *deviate*; for *conformist* we can substitute *team player*. Somehow, *deviate* does not evoke Daniel Boone on the mountain top, and *team player* does not evoke the cookie-cutter-produced Madison Avenue ad man. When we look closer, we see an inconsistency in the way our society seems to feel about conformity (team playing) an non-conformity (deviance). (...) Nonconformists may be praised by historians or idolized in films or literature long after the fact of their nonconformity, but they are usually not held in high esteem, at the time, by those people to whose demands they refuse to conform. This observation receives strong support from a number of experiments in social psychology (...)” (A:14-15)

“Moreover, even knowledgeable and sophisticated decision makers can fall prey to special kinds of conformity pressures inherent in making group decisions.” (A:16)

Note: Phrased differently, if d is a deviation, then the valuation $U(d)$ is path-dependent. If $U(d)$ is negative, then it exerts a force to reduce d . Note: other people’s behaviour may be used as an estimate of what would be ‘successful behaviour’; deviation then causes cognitive dissonance, and cognitive dissonance can again be reduced by downgrading the deviators; however, when deviation later turns out to have been successful, then cognitive dissonance can be reduced by praising the deviators.

Aronson mentions the group-think around Hitler, Nixon and the 1986 Challenger.

“According to Janis, groupthink is “the mode of thinking that persons engage in when *concurrency seeking* becomes so dominant in a cohesive ingroup that it tends to override realistic appraisal of alternative courses of action.” Groups engaging in this maladaptive decision-making strategy typically perceive themselves as invulnerable - they’re blinded by optimism. And this optimism is perpetuated when dissent is discouraged.” (A:18-19)

Aronson then discusses experiments by Solomon Asch, where a group must decide which one of three lines (A, B and C) is closest in length to another line X:

“When faced with a majority of their fellow students agreeing on the same incorrect responses in a series of twelve judgments, approximately three-quarters of the subjects conformed at least once by responding incorrectly. When we look at the entire spectrum of judgments, we find that an average of 35 percent of the overall responses conformed to the incorrect judgments rendered by Asch’s accomplices.” (A:21)

Aronson remarks that this result is especially intriguing, since only peer pressure is applied, and no other penalties, sanctions or rewards. In a phrase very reminiscent of economics (Robbins ‘the allocation of scarce goods to alternative ends’):

“In short, what I am suggesting is that these individuals had two important goals: the goal of being correct and the goal of staying in the good graces of other people by living up to their expectations.” (A:22)

There is more: people appear to know that people are conformist. In American experiments, people underestimate their own conformity, and overestimate it for others. And:

“(…) it appears that pressure to conform to the judgments of others has little (if any) effect on the *private* judgments of experimental subjects.” (A:24)

“If a participant is joined by even one ally who gives the correct response, the subject’s tendency to conform to the erroneous judgment of the majority drops sharply.” (A:24)

“Individuals who have a generally low opinion of themselves are far more likely to yield to group pressure than those with high self-esteem.” (A:25)

Rewards and punishment versus information

“A group is more effective at inducing conformity if (1) it consists of experts, (2) the members (individually or collectively) are important to the individual, or (3) the members (individually or collectively) are comparable to the individual in some way.” (A:25-26)

“(…) it’s easier for an individual who is securely ensconced in a group to deviate from that group.” (A:27)

“Thus, the appearance of authority - as potently symbolized by a uniform - can lend legitimacy to a demand, thereby generating high rates of compliance.” (A:27)

“According to Leon Festinger, [reference] when physical reality becomes increasingly uncertain, people rely more and more on “social reality” (…)” (A:28)

“This conformity effect is much stronger, however, when the person modeling the behavior is neat and well attired rather than disheveled and dressed in shabby clothes. [reference]” (A:28)

“I would suggest that conformity resulting from the observation of others for the purpose of gaining information about proper behavior tends to have more powerful ramifications than conformity in the interest of being accepted or of avoiding punishment.” (A:30)

There was an experiment where people were injected with epinephrine, a synthetic form of adrenaline which causes physiological excitation. People appeared to react differently:

“Thus, when their hearts started pounding and their hand started trembling, what were they to make of it ? The answer is that they made of it whatever the people around them made of it.” (A:31)

Compliance, identification and internalisation

Distinguish behaviour by the source of motivation:

- compliance: by reward or punishment (external: power)
- identification: by the desire to be like the influencer ((emotional) attraction)
- internalisation: by the desire to be right (credibility (or rational attraction))

My own summary is this: In their mind, people may harbour an ideal of goodness and truth (e.g. upper right hand corner of figure 2); other people who remind them of that ideal, are persuasive; and people like it when it is suggested (e.g. by themselves) that they themselves are getting close to that ideal.

“The internalization of a value or belief is the most permanent, most deeply rooted response to social influence. The motivation to internalize a particular belief is the desire to be right. Thus, the reward for the belief is intrinsic. If the person who provides the influence is perceived to be trustworthy and of good judgment, we accept the belief he or she advocates and we integrate it into our system of values. Once it is part of our own system, it becomes independent of its source and will become extremely resistant to change.” (A:35)

“(…) when subjects believed that they were going to continue interaction with an unattractive discussion group, they not only complied publicly, but they also seemed to internalize their conformity - that is, they changed their private opinions as well as their public behavior.” (A:39)

“As the exercise begins, the learner responds correctly several times but makes mistakes on a few trials. With each error, the subject [TC: teacher] throws the next switch, supposedly administering a shock of increasing intensity. With the fifth shock, at 75 volts, the victim begins to grunt and moan. At 150 volts, he asks to be let out of the experiment. At 180 volts, he cries out that he can't stand the pain. As the shock levels approach the point labeled “Danger: Extreme Shock,” the subject hears the victim pound the wall and beg to be let out of the room. But this, of course, does not constitute a correct response, so the experimenter instructs the teacher to increase the voltage and deliver the next shock by throwing the next switch.

The participants in this experiment were a random sample of businessmen, professional men, white-collar workers, and blue-collar workers. What percentage of these people continued to administer shocks to the very end of the experiment ? How long would you have continued ? Every year in my social psychology class, I pose these questions, and every year some 99 percent of the 240 students in the class indicate that they would not continue to administer shocks after the learner began to pound on the wall. The guesses made by my students are consistent with the results of Milgram's survey of forty psychiatrists at a leading medical school. The psychiatrists predicted that most subjects would quit at 150 volts, when the victim first asks to be freed. These psychiatrists also predicted that only about 4 percent of the subjects

would continue to shock the victim after he refused to respond (at 300 volts), and that less than 1 percent would administer the highest shock on the generator.

How do subjects respond when they are actually in the situation? Milgram found (...) that the great majority of his subjects - more than 62 percent - continued to administer shocks to the very end of the experiment, although some of them required a degree of prodding from the experimenter. (...) Some protested; many subjects were observed to sweat, tremble, stutter, or show other signs of tension; and they occasionally had fits of nervous laughter. But they obeyed.” (A:41-42)

“(...) replications of the experiment [reference] have demonstrated that people in Australia, Jordan, Spain, and West Germany react in much the same way Milgram’s subjects did. (...) An astonishingly large proportion of people will cause pain to other people in obedience to authority.” (A:42)

“(...) it should be emphasized that there are, in fact, some important factors in the situation encountered by Milgram’s subjects that tend to maximize obedience.” (A:43)

[TC: Do note that this is a statement that usefully can only be made by a social psychologist who can recognise what those factors are.]

The ‘uninvolved’ bystander

“In 1964, a young woman named Kitty Genovese was stabbed to death in New York City. (...) no fewer than thirty-eight of her neighbors came to their windows at 3:00 A.M. in response to her screams of terror - and remained at their windows watching in fascination for the thirty minutes it took her assailant to complete his grisly deed, during which time he returned for three separate attacks. No one came to her assistance; no one so much as lifted the phone to call the police, until too late. [reference] Why?” (A:46)

“(...) it was in broad daylight that Eleanor Bradley, while shopping on Fifth Avenue in New York, tripped, fell, and broke her leg. She lay there for forty minutes in a state of shock, while literally hundreds of passersby paused momentarily to gawk at her and then kept on walking.” (A:46)

“Thus, nonintervention can be viewed as an act of conformity. (...) “After all,” you ask yourself, “If it’s so damn important, why are none of these other people doing anything about it?”” (A:47)

Some factors that stimulate a helping reaction appear to be: (1) the feeling of sharing a common fate, (2) having no escape from the situation.

“This sense of interdependence is easily disregarded in our society; the predominant explanation given by the thirty-eight onlookers to the Genovese murder was, “I didn’t want to get involved.”” (A:54)

“(...) people help less when the costs of their assistance are high. (...) only 10 percent of the students who thought they were late for their appointment offered help, even when the speech they were to deliver involved the parable of the Good Samaritan !” (A:52-53)

“To make sense out of these results, we need to make use of the concept of *empathy*: in this case, our tendency to experience unpleasant physiological responses at the sight of another person in pain.

(...) If we believe there is nothing we can do about it, the greater will be our

tendency to turn away from it (...) especially if the victim is in *great* pain. (...) The discomfort aroused by seeing a victim's plight can be allayed if the witness can redefine the incident as a nonemergency or relinquish the responsibility for intervening." (A:53)

Application to stagnation in economic policy making

Economics has a problem. There is a divide between academic and practical economists. Academics don't deal much with practical problems; and practical economists don't deal much with academic problems. The exception are some very good economists, who actually tend to do both. The latter does not mean that the very good may not make errors on a collective basis. A discussion of these and other aspects is by Colander & Coats (1989); where it must be said that I'm very sympathetic to the views of Solow expressed therein - be it, that I still think that there is a problem. The example is unemployment. I think that the policy in-crowd - academics, bureaucrats, politicians and journalists - are victims of groupthink; be it, that this group likely is too big for that word, and we must use J.K. Galbraith's term 'conventional wisdom'. Dominant opinion is that current unemployment is not inefficient, while it is.

A useful recent statement is by James Galbraith (1996) is:

"How should economists NOT do economics? Now there's a subject. All of those untenable assumptions, the dense and yet primitive algebra, those cardboard models, the faulty data, the bad writing, the hidden politics, the obsolete episteme, and all this in the best and brightest of what our profession offers! Not to mention the widespread neglect of nonstandard maths and statistics, the occasional disrespect for exactness in institutional description, the deplorable presentation values and amused scorn for good writing one finds in the lower ranks. But this has all been said, and by more august voices than mine, and to no very great effect.

The people attracted to this subject, though perhaps often enough refugees from higher maths or harder sciences, are rarely stupid. They have average ethics for the late twentieth century, so far as I know. Their training, despite many defects, does select for elements of discipline and precision. In twenty years of being an economist, I have made friends and respectful acquaintanceships throughout the guild. There are worse.

No, the fault dear economists is not in ourselves. It lies in our institutions, in the markets we and our deans and college and university presidents have created for our own services, in their bureaucratic structures and incentive structures and imperfections. Surely the natural intellectual instinct of the economist throughout history, from Marx to Keynes to Robert Lucas, is correct in the present case. The remedy is not moral improvement, a futile quest, but revolution.

For a profession ostensibly devoted to the principles of laissez faire, consumer sovereignty, individual diversity and the division of labor, academic economics in our time is extraordinarily unfree to choose.

(...) we need a profession that looks less like cable television or the morning paper (endless repetitions of the same stuff) and more like the Internet on a good day. There is, indeed, something marvelous about computer networks that permit rolling seminars on abstruse topics to continue round the clock with

participation from all over the world. But I always thought that this was supposed to be possible inside universities, too.”

Given the various critical ideas, we see a ‘surprising’ stability in economics as it is; but actually we should not be surprised, since those who might do something about the criticism have little incentive to change, and Aronson has listed mechanisms for conformity of others.

One aspect in Holland is that people associate the directorate of the CPB with the institute itself. Given the effect, that Aronson refers to, of even one different opinion on conformity, I think that it has been and still is useful that I clearly state that the current directorate acts against the integrity of science. But then again the crowd is large, and my single voice drowns.

I invite you to think of me as an innocent victim in an unresponsive crowd. I have been fired with false accusations in 1991 and have lived a life ‘on the run’ since then.

Imagine Keynes forbidden to do macro-economics ! I’m drowning - in bureaucracy, in prejudice - but nobody will help; nobody will call an investigation squad of economists to find out what has happened and to put the facts into the open.

Interestingly, economists have explored - in the field called ‘public choice’ - that there may be abuse of power by civil servants within the government. But they have not succeeded in convincing governments that there should be procedures protecting other civil servants when they come across such abuse. And when abuse occurs within economics, economists do not know how to react. Some have been observed to have fits of nervous laughter.

3. Mass Communication, Propaganda, and Persuasion

Distinguish between the source, the message and the receiver:

The source

Aronson quotes Aristotle:

“We believe good men more fully and more readily than others: this is true generally whatever the question is, and absolutely true where exact certainty is impossible, and opinions are divided ... It is not true, as some writers assume in their treatises on rhetoric, that the personal goodness revealed by the speaker contributes nothing to his power of persuasion; on the contrary, his character may almost be called the most effective means of persuasion he possesses.”

(A:73)

Aronson then adds:

“It required some 2,300 years for Aristotle’s observation to be put to a rigorous scientific test. This was accomplished by Carl Hovland and Walter Weiss [reference]. What these investigators did was very simple: They presented large numbers of people with a communication that argued a particular point of view - for example, that building atomic-powered submarines was a feasible undertaking (this experiment was performed in 1951 (...))

(...) A large percentage of those people who believed the communication came from J. Robert Oppenheimer changed their opinions - they believed more strongly in the feasibility of atomic submarines. Very few of those who read the identical communication attributed to *Pravda* shifted their opinions in the direction of the communication.

(...) Hovland and Weiss use the term *credible*, which removes the moral connotations present in the Aristotelian definition.” (A:74)

“(...) the same communicator may be regarded by some members as possessing high credibility and by others as possessing low credibility.

(...) The communicator was introduced either as a prizewinning engineer from a prestigious university or as someone who washed dishes for a living.

(...) The results were striking: Among those children who were most prejudiced against blacks, the black engineer was *less* influential than the white engineer, although both delivered the same speech.” (A:75)

Again, social psychology is a complex field. Aronson next gives an example, for which he adds that Aristotle is not entirely correct:

“Suppose a habitual criminal recently convicted as a smuggler and peddler of heroin, was delivering a communication on the abuses of the U.S. juridical system. Would he influence you ?

(...) When Joe “The Shoulder” argued for more lenient courts, he was totally ineffective; indeed, he caused the subjects’ opinions to change slightly in the opposite direction. But when he was arguing for stricter, more powerful courts, he was extremely effective - as effective as the respected public official delivering the same argument.” (A:78-79)

Aronson:

“To summarize this section, we might list these phenomena:

1. Our opinions are influenced by individuals who are both expert and trustworthy.

2. A communicator's trustworthiness (and effectiveness) can be increased if he or she argues a position apparently opposed to his or her self-interest.
3. A communicator's trustworthiness (and effectiveness) can be increased if he or she does not seem to be trying to influence our opinion.
4. At least when trivial opinions and behaviors are concerned, if we like and can identify with a person, his or her opinions and behaviors will influence our own more than their content would ordinarily warrant.
5. At least when trivial opinions and behaviors are concerned, if we like a person, we will tend to be influenced even if it is clear he or she is trying to influence us and stands to profit by doing so." (A:83)

Note: in science there is a well-known mechanism of positive feedback with citation indices: people are quoted due to their status, and being quoted increases status.

The message

1. Logical versus emotional appeals

"Because, in practice, operational distinctions between "logical" and "emotional" are difficult to draw, some researchers have turned to an equally interesting and far more researchable problem: the problem of the effect of various levels of a specific emotion on opinion change. (...) Would it be more effective to arouse just a little fear, or should you try to scare the hell out of them ?" (A:85)

"The overwhelming weight of experimental data suggests that, all other things being equal, the more frightened a person is by a communication, the more likely he or she is to take positive preventive action." (A:85) "People with low opinions of themselves were the least likely to take immediate action. (...) A high-fear communication overwhelms them (...)" (A:86) and "If you were to construct a message containing clear, specific and optimistic instructions, it might increase the feeling (...) that they could confront their fears and cope with the danger." (A:87)

In the case of AIDS though: "a great many individuals will block all thoughts of death, disease, and condoms out of their minds, adopting a posture of denial. But they won't stop having sex." (A:89)
2. Consensual statistical evidence versus a single personal example:

"Most people are more deeply influenced by one clear, vivid, personal example than by an abundance of statistical data." (A:91)
3. One-sided versus two-sided arguments:

Giving two-sided arguments may increase trustworthiness, and have inoculation effects. But it also indicates that the problem may be controversial.

"The more well-informed the members of the audience are, the less likely they are to be persuaded by a one-sided argument (...)" (A:91) Also: "the knowledgeable members of the audience are likely to conclude the communicator is either unfair or is unable to refute such arguments" and "if a member of the audience is leaning in the opposite direction, then a two-sided refutational argument is more persuasive." (A:92)
4. The order of presentation:

The primacy effect: "(...) first impressions are crucial; if I can get the audience on my side early, then my opponent will not only have to sell himself, he'll also have to unsell the audience on me - he'll be bucking a trend." (A:92)

The recency effect: "when people leave the auditorium, they may remember the last thing they heard" (A:92)

"Here are the crucial points: (1) Inhibition (interference) is greatest if very little time

elapses between the two communications; here, the first communication produces maximum interference with the learning of the second communication, and a primacy effect will occur - the first speaker will have the advantage. (2) Retention is greatest, and the recency effect will therefor prevail, when the audience must make up its mind immediately after hearing the second communication.” (A:93-94)

5. The size of the discrepancy (interacting with the source):

“By ‘curvilinear’ I mean that, as a small discrepancy increased somewhat, so did the degree of opinion change; but as the discrepancy continued to increase, opinion change began to slacken; and finally, as the discrepancy became large, the amount of opinion change became very small. When the discrepancy was very large, almost no opinion change was observed.” (A:96) & “they can change their opinion, or they can derogate the communicator” (A:98) and “if the communicator’s credibility were questionable, it would be difficult *not* to derogate him.”

The receiver

1. Self-esteem: “People who feel inadequate are more easily influenced” (A:100)

2. Prior experience:

“An audience can be made receptive to a communication if it has been well fed and is relaxed and happy.” and “One way to decrease their persuasibility is by forewarning the individuals that an attempt is going to be made to persuade them.” (A:101)

One special type is inoculation: “Prior exposure, in the form of a watered-down attack on our beliefs, produces resistance to later persuasion because (1) we come motivated to defend our beliefs, and (2) we gain some practice in doing so.” (A:105)

Note the subtle difference between inoculation and ‘getting used to’:

“On August 30, 1936, during the Spanish Civil War, a single plane bombed Madrid. There were several casualties, but no one was killed. The world was profoundly shocked by the idea of a congested city being attacked from the air. Newspaper editorials around the world expressed the general horror and indignation of the citizenry. Only nine years later, U.S. planes dropped nuclear bombs on Hiroshima and Nagasaki.” (A: 4-5)

A specific observation about television

“they found that television policemen are amazingly effective, solving almost every crime, and are infallible in one regard: The wrong person was never in jail at the end of a show. Television fosters an illusion of certainty in crime fighting. (...) Heavy viewers are likely to reverse the presumption of innocence, believing “defendants must be guilty of *something*, otherwise they wouldn’t be brought to trial.”” (A:109-110)

“It is nearly impossible to specify the precise extent to which exposure to the media influences public opinion and behavior. Too many other factors are involved. Because the research described above is not experimental it is difficult to separate the effects of mass communications from the impact of personal experiences and contact with family and friends.” (A:110)

There is one comment I would like to make on the influence of the media. The media report on “economic events”, but hardly any time on the science of economics. People are inclined to the illusion that they understand economics, since they use money and deal with economic decisions all day long. The media reinforce that illusion. This makes

for an audience that will be biased to authority (that may be similarly misguided) when economists contribute to a debate.

Application to stagnation in economic policy making

I link these phenomena in two ways to the CPB-issue: the CPB is highly renowned but its employees are commonly unknown. With regards to my own person: I've been fired - and thus have been reduced to an outcast position - and I seem to be trying to influence your opinion.

Buitendijk (1989) discusses the propaganda used for World War I. A famous item of propaganda in WW I was the "Your country needs you" poster, which aptly reduces the 'uninvolved bystander' effect (A:53). Buitendijks thesis is that famous writers participated in embellishing the trenches, and thereby actually destroyed the moral standard of literature. One of my angles is the integrity of science, and I think that economists give in too easily to political pressure. Let me use that poster again, in a slightly different fashion, see figure 4, and ask: Don't you feel a bit responsible for the mess we're in ?

Figure D: Will you defend the integrity of science ?



4. Social Cognition

It is interesting that Aronson discusses utility analysis, and that he moves away from full rationality to arrive at - if I may call it that way - partial rationality:

“According to Bentham, we engage in a *felicific calculus* or happiness calculation to determine what is good or bad. [reference]” (A:117)

“But do humans figure things out as rationally as Bentham and Kelley suggest we do? [reference] There is little argument that we *do* on *some* occasions. (...) It is impossible to think deeply about each and every piece of information that comes our way and about each and every decision that must be made.” (A:118-119)

“What then do people do ? As you might guess, we try to take shortcuts whenever we can. According to the social psychologists Susan Fiske and Shelley Taylor, human beings are *cognitive misers* - that is, we are forever trying to conserve our cognitive energy. [reference] Given that we have a limited capacity to process information, we humans attempt to adopt strategies that simplify complex problems. We accomplish this by ignoring some information to reduce our cognitive load; or we “overuse” other information to keep from having to search for more; or we may be willing to accept a less than perfect alternative because it is almost good enough. The strategies of the cognitive miser may be efficient - making fairly good use of our limited cognitive capacity to process a near infinite world of information - but these strategies can also lead to serious errors and biases, especially when we select the wrong simple strategy, or in our rush to move on, we ignore a vital piece of information.” (A:120)

“(…) if we fail to realize that we often judge others on the basis of stereotypes or that the way the information is presented can distort our judgment, we are unable to take steps to correct our errors. And what is worse, by not admitting that we are cognitive misers, we may come to believe that our personal perspective is the only perspective there is, and it is thereby synonymous with Truth. As history demonstrates, it is very easy to commit acts of hatred and cruelty when one knows oneself to be absolutely right. [reference]” (A:120)

“What conditions are most likely to lead to heuristic use rather than rational decision making ? Research has identified at least five such conditions. [reference] Heuristics are most likely to be used when we don’t have *time* to think carefully about an issue, when we are so *overloaded with information* that it becomes impossible to process the information fully, or when the issues at stake are *not very important*, so that we do not care to think about it. Heuristics are also used when we have *little other knowledge or information* to use in making a decision and when a given heuristic *comes quickly to mind* as we are confronted with a problem.” (A:137)

“(…) provide support for the proposition that *human cognition tends to be conservative*. (...) conservatism refers to the tendency to preserve that which is already established - to maintain our preexisting knowledge, beliefs, attitudes, and hypotheses.” (A:148)

Aronson lists various heuristics or effects that affect our judgment:

- comparison: including an undesirable alternative may increase contrast and thereby affect decisions (A:121); “the dilution effect is the tendency for neutral or irrelevant information to weaken a judgment or impression.” (A:131)

- priming: “Recently and frequently activated concepts are more likely to readily come to mind and thus be used in interpreting social events.” (A:124)¹²
- how a decision is framed or posed: “this method will save 200 people” versus “this method will kill 400 people” while always 600 persons are involved (A:127)
- order: “Steve is intelligent and envious” versus “Steve is envious and intelligent” (A:129)
- association: “An analysis of folk remedies and early Western medicine shows that a common assumption is that the cure should resemble the disease.” (A:134)
- “The halo effect is a general bias in which a favorable or unfavorable impression of a person biases future expectations and inferences about that person. (A:136)
- “The false consensus effect refers to the tendency to overestimate the percentage of people who agree with us on any issue” (A:137)
- “First, most people seem to have some knowledge of stereotype effects and an ability to control them to some extent. Second, despite this knowledge about stereotypes, they still influence perception and judgments when there is additional information that lends a false sense of rationality to the judgment.” (A:140)
- in-group I: “In general, we tend to see members of out-groups as more similar to each other than the members of our own group.” (A:141)
- in-group II: “What makes Tajfel’s research so curious are the results that are often obtained. Despite the fact that subjects were total strangers prior to the study, never interact with each other during the study and probably never will; despite the fact that their actions are completely anonymous, *they act as if those who share their meaningless label are their good friends or close kin.*” (A:142)
- “Human memory is primarily reconstructive in nature.” (A:142) and “The students were using their newly found attitudes to reconstruct their pasts.” (A:145)
- confirmation bias: “Imagine that you are in a dark room looking at a photographic image so blurred that it is impossible to identify what is depicted. Gradually the picture is brought into focus until it is just slightly blurred. At this point you are asked to guess what it is. If you are like most subjects who have participated in this study, [reference] you will be correct about 25 percent of the time. But suppose you started by looking at the slightly blurred picture without the early gradual focusing. Even though you would now have a shorter exposure time, without the gradual focusing you would be correct almost 75 percent of the time” (A:147)
- actor-observer bias: “The tendency for actors to attribute their own actions to situational factors whereas observers tend to attribute the same actions to stable personality dispositions of the actors.” (A:160) and “The actor’s attention is usually focused on the environment and on past history; he or she may have special knowledge about the factors that led up to the behavior and how he or she felt about the behavior. On the other hand, the observer’s attention is almost always focused on the actor; therefore the observer may be unaware of historical or environmental reasons for why the actor did what he or she did.” (A:161)
- “Egocentric thought refers to the tendency to perceive one’s self as more central to events than it actually is. [reference] The vast majority of humans remember past events as if the self were a leading player, in control and influencing the behavior of others.” (A:163)

¹² This phenomenon is also used in Pavlov training and the programming of ‘neural networks’. A neural connection can be sensitised, if it is close to a connection that already is sensitive.

- “The self-serving bias refers to a tendency for individuals to make dispositional attributions for their successes and situational attributions for their failures.” (A:165) For example, there are written reports by people involved in car accidents, like “The telephone pole was approaching fast; I attempted to swerve out of its way, when it struck the front of my car.” or “A pedestrian hit me and went under the car.” (A:166)
- “(...) in a *cooperative* situation (like jigsaw), children are as generous with their partners as they are with themselves; they attribute their partner’s success to skill, and failure to an unlucky break. (...) while jigsaw does produce beneficial effects with highschool students, [reference] it works *best* with young children, before prejudiced attitudes have an opportunity to become deeply ingrained.” (A:340)
- “People don’t like to see or hear things that conflict with their deeply held beliefs or wishes. An ancient response to such bad news was to kill the messenger - literally.” (A:181)

To avoid the negative consequences of cognitive conservatism, Aronson (A:149) suggests: (1) beware of labels, (2) put things in perspective, (3) try to see the uniqueness, (4) think that you might be mistaken. Personally, I advise you to regularly think of the P.T. Barnum statement too: “There is a sucker born every minute.” (A:164)

Application to stagnation in economic policy making

Mass unemployment and poverty for low income labour continue into the third decade since the early 1970s. It will be difficult for many people to understand that they can do something about it. Politicians, bureaucrats and academics in authority tell them that harsh measures are unavoidable. Social cognition stagnates along two strands:

- The direct strand runs as follows.
Many people see the cause of mass unemployment in technology and ‘globalisation’, which are factors on the demand side. Others see the cause in high benefit levels or in low levels of education or educationability, which are factors on the supply side. These explanations allow little room for policy making, especially when the benefit level is regarded as social subsistence.
However, there is a third alternative. In this alternative approach the cause lies with the tax exemption level that is too low. The low exemption causes that the lowly productive must pay taxes, and thus that their gross labour costs rise towards prohibitive levels. Here policy can do much. In this alternative approach, technology and ‘globalisation’ have actually reduced the problem of unemployment. Technology raises productivity, even of the lowly productive. ‘Globalisation’ is a scare word for trade, and trade has boosted economic growth and welfare since the dawn of mankind. Since the problem lies with labour costs and the demand for labour, supply factors like the benefit level are less relevant.
Occam’s razor leads to the adoption of the third approach.
- The indirect strand takes the analysis up from there. Why is it that policy makers do not apply Occam’s razor ? They say that they would like to do something about unemployment - and they could if they applied the knowledge that is available among specialists. But they don’t.

My conjecture is that ‘cognitive conservatism’ is a prime cause to explain this.

A second application is this. In the former chapter I diagnosed by social position to be an outcast. The present chapter explains that you have reasons to believe that I did it

myself. Your inclination is to think that I have deserved my dismissal due to my person, instead that you will investigate the situation. (“Blaming the victim” - Whereas I, in my turn, have compensated for possible biases, of course !)

5. Self-Justification

“For me, one of the most fascinating aspects of the social animal is our touching need to see ourselves as good and sensible people - and how this need (...) frequently leads us into performing actions that are neither good nor sensible.” (A:169)

“In sum, once a firm commitment has been made, people tend to focus on the positive aspects of their choices and to emphasize the negative qualities of unchosen alternatives. This basic phenomenon has been extended and further clarified by a number of different investigators. [reference]

(...) It is impossible to overstate the potential dangers of this phenomenon.

(...) Suppose a madman has taken over our country and has decided to eradicate all members of your religious group. But you don't know that for sure. What you *do* know is that your country is being occupied, that the leader of the occupation forces does not like your religious group very much, and that, occasionally, members of your faith are forced to move from their homes and are kept in detention camps. What do you do? You could try to flee from your country; you could try to pass as a member of a different religious group; or you could sit tight and hope for the best. Each of these options is extremely dangerous: It is difficult to escape or to pass and go undetected; and if you are caught trying to flee or disguising your identity, the penalty is immediate execution. On the other hand, deciding to sit tight could be a disastrous decision if it turns out your religious group *is* being systematically annihilated. Let us suppose you decide not to take action. That is, you commit yourself to sit tight - turning you back on opportunities to try either to escape or to pass. Such an important decision naturally produces a great deal of dissonance. In order to reduce dissonance, you convince yourself you made a wise decision - that is, you convince yourself that, although people of your religious sect are made to move and are being treated unfairly, they are *not* being killed unless they break the law. This is not difficult to maintain because there is no unambiguous evidence to the contrary.

Suppose that, months later, a respected man from your town tells you that while hiding in the forest, he witnessed soldiers butchering all the men, women and children who had recently been deported from the town. I would predict that you would try to dismiss this information as untrue - that you would attempt to convince yourself that the reporter was lying or hallucinating. If you had listened to the man who tried to warn you, you might have escaped. Instead, you and your family are slaughtered.

Fantastic ? Impossible ? How could anyone not take the “respected man” seriously ? The events described above are an accurate account of what happened in 1944 to the Jews in Sighet, Hungary. [reference]” (A:187)

“The interesting and important thing to remember here is that two people acting in the two different ways described above could have started out with almost identical attitudes. Their decisions might have been a hair's breath apart - one

came within an ace of resisting but decided to cheat, [TC¹³] while the other came within an ace of cheating but decided to resist. Once they have made their decisions, however, their attitudes toward cheating will diverge sharply as a consequence of their decisions.

... The data from Mill's experiment are provocative indeed. One thing they suggest is that the most zealous opponents of a given position are not those who have always been distant from that position" (A:193)

"For example, if a modern Machiavelli were advising a contemporary ruler, he might suggest the following strategies based on the theory and data on the consequences of decisions:

1. If you want people to form more positive attitudes towards an object, get them to commit themselves to own that object. [TC: Buy Aronson's book !]
2. If you want people to soften their moral attitudes towards some misdeed, tempt them so that they perform that deed; conversely, if you want people to harden their moral attitudes toward a misdeed, tempt them - but not enough to induce them to commit the deed." (A:194)

Application to stagnation in economic policy making

"Self-justification" is a process that can be recognised in the present stagnation too: First of all, many people will not want to believe that they are being fooled by the so-called scientific impartiality claimed for the CPB. Even when they are warned by me, who worked for nine years at this institute that they respect so much.

Secondly:

- The CPB is subjected to unscientific practices, on a regular and systematic base.
 - The directorate of the CPB claims that the CPB is a scientific institute.
 - The directorate of the CPB zealously objects to an investigation of my dismissal.
- Thirdly, I object to the fact that I have been fired. The question is: do I do that zealously ? An introspective answer to that question is: I do not want to be contaminated. I do not want to change my personality and to become one of the 'cheaters' who say that the CPB is a scientific institute while knowing what actually is the case. Interestingly, Cool (1992a:234), reprinted in (1994b:80), writing before the reading of Aronson's book, states: "There can be an effect alike an elastic band here, that one willingly goes along with one argument for a long distance, then approaches a limit, and then shoots back to a clearer position satisfying the other argument. The elastics involved here give the impression of wavering and it looks as if positions are opposed more than necessary. While in fact there is a steady and willing balancing of the arguments." So, in my view, I don't overcompensate, but only find the proper balance.

Fourthly, let me explain my position now that I have been fired, and now that I do not have much access to the debate on macro-economics. Let it be clear, from the outset, that I have developed my solution to unemployment in adequate fashion, i.e. so that other smart economists can understand it. The subsequent question is: will I work hard, in my spare free time, to do what I was not allowed to do in my official capacity as a scientist - i.e. to extend on the didactics for the larger public ?

There are four subpoints:

¹³ This may be called 'contamination'.

a) Only a few people will understand macro-economics, see the validity of my analysis, acknowledge the importance of justice and the importance of the integrity of science, acknowledge that I am a valuable discussion partner, dare to say the latter in the open, and actually be motivated to do so. And then, only a few of these will have sufficient reputation for not becoming out-casts themselves. In the 1990-1996 period I have not met *any* person who satisfies all these requirements.

b) I object to the idea that my reputation is being sacrificed in order to maintain the status of the directorate of the CPB. I will not accept my dismissal nor the slander that has been used to fire me, and I will keep protesting against them. The protest will take time and effort, and therefore I simply will not have the time to write down much. If you think that I will stop protesting, then you don't understand much of the world.

c) There is sufficient cause to be very hesitant in this stage about extending on my solution at all. Doing that may have various bad consequences:

- People may think that I try to prove my case, and people tend to dislike such persons.
- People may think that I try to prove my case 'with the wrong means'. They may say "He may have a good idea, but that is not the point. The point is, according to the director of the CPB, that he had to be fired because people could not co-operate with him. I can understand that you cannot work with him, since, again, he mixes up the matter of his dismissal with macro-economic policy."
- People may mistake my scientific analysis for a personal opinion, 'disagree' on the solution, and also say that "surely someone with such a stupid opinion ought to be fired".
- People may misunderstand macro-economics, and hold that "surely someone with such a stupid analysis ought to be fired".
- People who understand macro-economics and who see the validity of my analysis, may not react for fear of contamination ("since the discussion has been contaminated with other 'irrelevant' aspects").
- People who understand macro-economics and who see the validity of my analysis, may adopt only bits and pieces, and draft their own version (perhaps without citation or reference; and given the way that I've been treated, that apparently is the likely case). Then, when my solution has been silently adopted, my case will lose its material base, and the only thing that remains is that I have been treated badly. For which nobody cares. Now please consider: there is no reason why I should be attracted to this result.
- People like to see that conflicts have a material base. So it is useful to first ask people that I'm restored into my capacity as a government economic researcher, and only then show what I have to say - so that people feel 'rewarded' for their effort at restoration.

d) I see little alternative for proceeding as I have done and do: to regard the problem from the point of view of science and the science ethic, and discuss it in that manner (rather than to get lost in didactic problems).

6. Human Aggression

The debate on economic policy does not seem to harbour much aggression. There is ample reason just to drop this chapter. However, there are some considerations that cause us to give it more attention. Let us first regard Aronson:

“I would define an act of aggression as a behavior aimed at causing harm or pain.” (A:243) while there is “(...) a distinction between aggression that is an end in itself and aggression that is instrumental in achieving some goal. The first I will call hostile aggression; the second I will call instrumental aggression.” (A:244) [TC: I would call Milgram’s subjects instrumentally aggressive. Also, I would label the threat of violence as aggressive too.]

“(…) engaging in these games does not decrease aggression. (...) *watching* a competitive activity not only fails to decrease aggressive behavior - it temporarily increases it.” (A:253)

“If a cathartic effect were operating, we would expect the subjects (...) to administer fewer and less intense shocks the second time. This didn’t happen; in fact, the subjects who had previously shocked the confederate expressed more aggression when given the subsequent opportunity to attack him. This phenomenon is not limited to the laboratory; the same tendency has also been observed systematically in naturally occurring events in the real world, where verbal acts of aggression served to facilitate further attacks.” (A:254)

“(…) the main thrust of the research on this issue indicates that committing an overt act of aggression against a person changes one’s feelings about that person, increasing one’s negative feelings toward the target and therefore increasing the probability of future aggression against that person. (...) when a person does harm to another person, it sets cognitive processes in motion aimed at justifying that act of cruelty. (...) This would especially hold if the target is an *innocent* victim of my aggression.” (A:255) [TC: I would use “emotion” instead of “feeling”.]

“In short, according to psychoanalytic theory, expressing hostility would purge the insulted subjects of their hostile feelings. Being a good Freudian, Kahn expected these results. He was surprised and (to his credit) excited to find evidence to the contrary. Specifically, those who were allowed to express their aggression subsequently felt greater dislike and hostility for the technician than did those who were inhibited from expressing their aggression.” (A:256)

“(…) when people are made angry, they frequently engage in overkill. (...) The overkill produces dissonance (...) The discrepancy must be justified (...)” (A:256)

“Rather than reducing the tendency towards aggression, wars increase aggressive behavior by legitimizing it.” (A:258)

“Taken together, it would seem obvious that, in the interest of public safety, it would be wise to limit the amount of violence (real or fictional) shown on television.” (A:262)

“Research has shown over and over again that the only solution is to find ways of reducing violence *as we continue to reduce the injustice that produces the frustrations that frequently erupt in violent aggression.*” (A:268)

“Revolutions usually are not started by people whose faces are in the mud. They are most frequently started by people who have recently lifted their faces out of the mud, looked around, and noticed that other people are doing better than they are and that the system is treating them unfairly. Thus, frustration is not simply the result of deprivation; it is the result of *relative deprivation.*” (A:270-271)

Application to stagnation in economic policy making

For economics in general, there are three applications:

- fundamentals: courts of law (and enforcement) have been enacted e.g. for property rights,
- daily execution: people for example go on strike for better working conditions,
- particulars: aggression based on national and cultural differences may hinder debate in the European Union, for example on the European Monetary Union (EMU)

For the topic of current stagnation:

- Cool (1989-1996) explains the following. Unemployment and economic insecurity *ceteris paribus* increase the violence in a society. European nations provide for benefits, and thereby contain the violent consequences. After the fall of the Berlin Wall and the end of the USSR, Russia and the new eastern nations have been subjected to high levels of unemployment and economic insecurity - and they are not rich enough to provide for the benefits. They are apt to see more violence, and possibly political instability. Cool's 1989 expectation has come true - e.g. in Russia a coup attempt and a shooting at the parliament building, wars in Yugoslavia and Chechnia, old ladies scurrying through the snow looking for food, and various suicides by depressed individuals all over the Eurasian continent. Now, tackling unemployment in the western nations would have the spill-over effect that eastern nations would have an example how it can be done. The moral imperative to tackle unemployment in the West then partly comes from its external effect. But will Westerners accept the evidence on the (*ceteris paribus*) link between unemployment & insecurity and aggression, the evidence that makes them partly responsible for the chaos in the East ?
- Secondly, Cool himself has been subjected to 'implied aggression'. He was told to move himself and his stuff from his office to another; the move implied a change of status, from colleague to deviant. Physical force was implied (in the situation, and not stated explicitly): had Cool not obeyed, others would have moved his stuff; and had he tried to remain seated at his bureau, he probably would have been moved with chair and all. Had Cool not obeyed, the CPB directorate could have justified its original decision by this later 'disobedience' (as it would have been called). Two and a half years later, the court ruled that the decision had been an abuse of power by the CPB directorate.
Similarly, blocking the discussion on Cool's analysis, had a harmful effect on Cool's reputation as a scientist - while making it difficult for others to understand what Cool was talking about. And naturally, Cool's dismissal was very aggressive to him, since it cost him his income, and he didn't get useful references for finding another job.

7. Prejudice

This chapter applies earlier insights and concentrates on the one topic of prejudice. We select some quotes that apply on the economic question:

"The feeling of helplessness and powerlessness that is the harvest of the oppressed almost inevitably leads to a diminution of self-esteem that begins even in early childhood." (A:287)

“Research suggests that the experience of prejudice can be so powerful that individuals who are merely *assigned* to a low-status, minority position on a temporary basis can suffer deficits in achievement on tasks requiring skill and concentration.” (A:288)

“Likewise, it is useful to perceive individuals from the lower class as being unambitious, less intelligent, and prone to criminal behavior if we want to pay them as little as possible for doing menial work.” (A:294)

“It is not always easy for people who have never experienced prejudice to fully understand what it is like to be a target of prejudice. For relatively secure members of the dominant majority, empathy does not come easily. They may *sympathize* and wish that it weren’t so, but frequently a hint of self-righteousness may nevertheless creep into their attitudes, producing a tendency to lay the blame on the victim.” (A:298)

“For example, if two people work equally hard on the same task and, by a flip of a coin, one receives a sizable reward and the other receives nothing, observers show a strong tendency to rate the unlucky person as having worked less hard. Similarly, negative attitudes toward the poor - including blaming them for their own plight - are more prevalent among individuals who display a comparatively strong belief in a just world. [reference] Apparently, we find it frightening to think about living in a world where people, through no fault of their own, can be deprived of what they deserve or need, be it equal pay for equal work or the basic necessities of life.” (A:299)

“Scientists are supposedly an objective, fair-minded lot. But even they can be influenced by the prevailing atmosphere.” (A:300)

Application to stagnation in economic policy making

The long period of mass unemployment in western nations likely has reduced the self-esteem of many: especially those who could benefit from demanding a solution. At the same time, the better-off, who have the self-esteem that would allow them to act, are partial to their own greed and delusions; victims and perpetrators of Galbraith (1992)’s “culture of contentment”.

8. Liking, Loving, and Interpersonal Sensitivity

For our present exposition we are not interested in love, but, it has appeared in chapter 3 on persuasion that “liking” plays a role in rhetorics. Apparently, we are less inclined to dismiss a message when we like the messenger. This chapter helps us to better understand the dynamics of liking and disliking - and indirectly the dynamics of acceptance and rejection.

It is interesting to note by what statement Aronson opens his chapter:

“Early in this book I described several situations, in the laboratory and in the real world, in which people turned their backs on the needs of their fellow human beings. I mentioned incidents in which people watched someone being killed without attempting to help; in which people walked casually by, around, and over a woman with a broken leg lying on a Fifth Avenue sidewalk; in

which people, hearing a woman in the next room apparently fall off a stepladder and injure herself, did not so much as ask if she needed assistance. I also described a situation in which people went a step further by apparently causing a person to suffer severe pain: A large number of individuals, in blind obedience to the commands of an authority figure, continued to administer severe electric shocks to another human being even after the person screamed in pain, pounded on the door, begged to be released, and then fell into ominous silence. Finally, we saw how people, through fear, hate and prejudice, can deprive one another of their civil rights, rob one another of their freedom, and even destroy one another.

With all of these events in mind, I asked if there is any way to diminish aggression and to encourage people to take responsibility for the welfare of their fellow human beings. In this chapter, I will ask this question in a more formal manner: What do we know about the factors that cause one person to like or love another ?” (A:343-344)

What I find interesting is that Aronson calls the topic of love “more formal”. This suggests that love is not regarded as a base *feeling*, but as a common denominator or even an abstraction. Perhaps it is true - even by definition - that many disagreements also among scientists would disappear if people would ‘love’ each other more. I myself, though, would emphasize the scientific attitude, i.e. the problem-solving attitude where only the contents of what is said matters.¹⁴ By this attitude many problems with finding agreement disappear by definition. It must be granted, though, that it is an open question whether that scientific attitude is humanly possible; so that Aronson’s approach may come into the picture.

Let us continue, and find, to our surprise again, economics hidden within social psychology:

“(…) aspects of interpersonal attraction can be gathered under one sweeping generalization: We like people whose behavior provides us with maximum reward at minimum cost.” (A:345) and “Thus, doing a favor for someone will increase your liking for that person, but only if the effort you expend results in a successful outcome.” (A:353)

“as we learned in the preceding chapter, one way prejudice and hostility can be reduced is by changing the environment in such a way that individuals cooperate with each other rather than compete. Another way of stating this relation is that cooperation leads to attraction.” (A:345-346)

“(…) in problem-solving groups, the participants who are considered the most competent and to have the best ideas tend not to be the ones who are best liked. [reference] How can we explain this apparent paradox?” (A:353)

“(…) my colleagues and I found that males with a moderate degree of self-esteem are most likely to prefer the highly competent person who commits a blunder, while males with low self-esteem (who apparently feel little competitiveness with the stimulus person) prefer the highly competent person who *doesn’t* blunder” (A:356)

¹⁴ Gambs & Komisar (1968:7) “a willingness to put aside prejudice, self-interest, and the unverified wisdom of authority”. Note though: if you put scientists in a cage, and feed them with good but tasteless foods, they may go on strike, and use their knowledge and brainpower as a bargaining lever to force you to let them out and treat them well. It will not help much if you insist that they “put aside self-interest”. It follows that these words have contextual meanings.

“(...) we like those who agree with us. (...) our desire to avoid people who disagree with us is stronger than our need to associate with those whose attitudes are similar to our own (...) people like converts better than loyal members of the flock.” (A:364)

“All other things being equal, we like people whose attitudes are similar to ours *and* if we like someone, we attribute attitudes to him or her that are similar to ours.” (A:365)

“When other people like us, we tend to like them, too.” (A:365) and

“Furthermore, the greater our insecurity and self-doubt, the fonder we will grow of the person who likes us.” (A:366)

“(...) although it is nice to be liked by someone who shares our values and opinions, it is far *more* exciting to be liked by someone who doesn’t.” (A:369)

“(...) increases in positive, rewarding behavior from another person have more impact on an individual than constant, invariant reward from that person. (...) This would be true even if the number of rewards was greater from the latter person.” (A:370-371)

After these quotes it is obvious that there will be a positive feedback between people liking each other and having or developing the same opinions and attitudes. In addition, there is a feedback from the attitude on actual behaviour and the position within the group:

“Thus physically attractive people may come to think of themselves as “good” or lovable because they are continually treated that way. (...) Ultimately, people may begin to behave in a way consistent with this self-concept - a way that is consistent with how they were treated to begin with. Please note that, for the most part, our discussion of beauty has focused on “visual” beauty. But there are other kinds of beauty.” (A:362-363)

Application to stagnation in economic policy making

We may reach some preliminary conclusions - that relate to work by Mills and Michels. Given these feedbacks, we may not be surprised at the phenomenon of the ‘in-crowd’, or the division between ‘insiders’ and ‘outsiders’. A society will tend to have an elite group governing it. This group will show behaviour not unsimilar to the courts of kings and emperors of the past. The in-crowd will be ‘socially attractive’, entertain rather stable (‘conservative’) convictions and a high self-esteem, and will tend to fail to notice outsiders. The members of the in-crowd are competitors to each other (and, individually, some may hate others); but if society is to be stable, the in-crowd will generate face-saving customs and other mechanisms, which again help to distinguish them from the outsiders.

Next to the courts of kings, there is democracy. Democracy finds its role model in science, with its scientific attitude. In theory, science should be free from the in-crowd effect. However, in-crowd effects are noted to occur in actual science, as it exists in the everyday world we live in. Table 1 contains some indications of the attitudes observed by this author. Aronson’s report on experimental findings provides possible causes for these observations. In dictatorial states scientists may be shot for uttering views that seem critical of the dictator. In democratic states the force that prevents scientific consensus is not external power but internal lure. In-crowd people in plush jobs may live

in a delusion of their own goodness and wisdom. The moral code can be not to criticise one another - and the one who does, who criticises only one of the flock, is attacked on all sides. Attack is only a warning; final punishment is total neglect. "Losing face" is a perfect expression: one is no longer seen, one is lost in the faceless crowd.

One major question is whether we are stuck in the situation that even science shows in-crowd effects. Can we get out - and if so, how? Aronson provides a 'soft' answer:

"People are often unaware of how to provide constructive feedback. (...) Effective communication requires openness; but openness can hurt people. (...) The key rests in the term feeling; Sam was not expressing a feeling, he was expressing a judgment. To avoid being destructive, our use of open communication must involve the direct expression of feelings rather than judgments." (A:393)

Aronson sensibly gives an example, and we usefully reproduce it:

"For example, suppose you and I are members of a six-member committee to raise funds for underprivileged children. Suppose you are intelligent, creative, athletic, wealthy and personable. I'm feeling competitive with you; I want the other committee members to like and admire me more than they like and admire you. Because of these feelings, if you propose an idea for raising funds, I might be prone to find fault with it, to ridicule it, to argue it down, even if it's a good idea - *especially* if it's a good idea." (A:397-398)

"If I had learned to confront and understand my feelings of envy and competitiveness, I may stop and think about whether your idea was *really* a bad one, or whether I'm just being competitive again. If I can be aware of my envy and my need to compete, I have a good chance of being able to curb them and thereby become a more productive committee member. Subsequently, if I get to know you better and begin to trust you, I may decide to share with you (in private) my prior feelings of competitiveness. Perhaps I can do it in a way that will serve to invite you into a closer, more honest relationship, without attempting to *force* you into one." (A:398)

To solve the problem, Cool (1990-1996) proposes a parliamentary enquiry, but perhaps, along the lines suggested by Aronson, (Dutch) economic policy making needs an 'encounter group' (too).

9. Social Psychology as a Science

Here Aronson explains some of the procedures and ethical problems. When people are subjected to experiments, they must be goaded into something - which even social psychologists find difficult and which at the same time presents an ethical problem. Aronson also shows himself aware of the fact that his findings might be abused, and he explains how he lives up to his responsibility as a scientist.

Application to stagnation in economic policy making

For us, this chapter gives us the possibility to reconsider some of the more basic scientific drawbacks of this paper.

- Our subject is historical - what actually has happened and is happening. Aspects can be highlighted by experimental methods, but events that actually took place in 1990 will be difficult to reproduce in 1996. What we do runs the danger of 'hineininterpretieren': to reconstruct the past to fit the theory.

- We have looked at qualitative results only.
- Also, we looked at only some indications on only some different positions and attitudes.
- Our problem area is rather wide: a whole system, with many actors, who have many properties. We should have a pendant to a macro-economic model.
- And we haven't discussed the ethics. Do we really want to use results of experiments in social psychology, results that have been generated by goading people ?

I can think of controlled experiments in real life. Some research institutes could arbitrarily select one of the colleagues, and flush that person down the drain. After about three years they should tell everybody that it was just an experiment, and pay that person some millions commensurate to the lost time, lost friends, divorce, suicide attempts or whatever. Science will learn a lot about its social fabric, and about the *system* in general (e.g. also why we endure child labour and the hungry). These experiments could be held till the appeal system turns out to be fool-proof.

Conclusion

First of all, as an econometrician visiting sociology & social psychology, I suffer from stupidity. I restate what is well-known in one subject area - but not in the other; and perhaps vice versa; and I cannot point out exactly where my novel contribution lies. That's why I am so glad that I can say that I have raised questions.

Secondly, I find Elliot Aronson's book enlightening. It is very well written, subtle, humourous and humane, full of facts and insights, and, most of what he says sounds plausible - also in the light of my other reading in philosophy, methodology and the social sciences that I have not explicitly referred to. Best of all, it contained a surprising amount of economics - as all good work does.

Finally, our subject is too large to reach specific conclusions. But I think that a framework has been set, and that questions have been raised that can generate good research.

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