

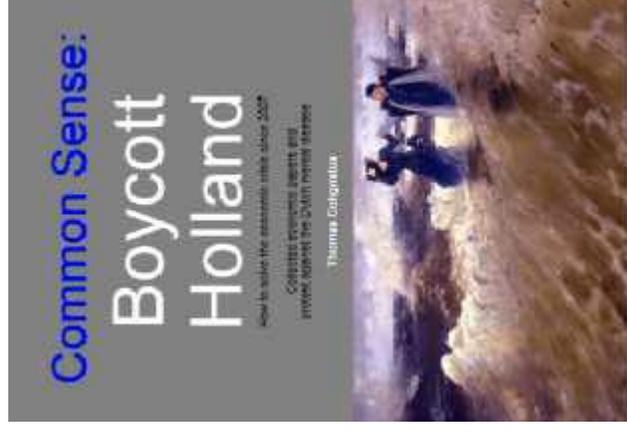
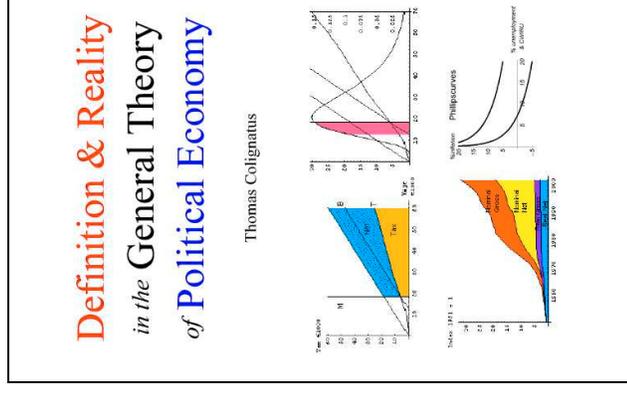
Cause and Cure of the Crisis

The Great Stagflation since 1970
A new synthesis for economic theory

Thomas Colignatus
Econometrician (Groningen 1982) & teacher of mathematics (Leiden 2008)
<http://thomascool.eu>

DRGTPE (2000)
Journal of Economic Literature
JEL 2000-1325
Before the crisis of 2007+

CSBH (2012)
After the crisis of 2007+



Summary

The current crisis is a phase in the Great Stagflation since 1970. Let us first understand this cause before we consider the cure. The events since 2007 cause economists and governments to focus on the financial sector, monetary policy and national debt. This is reasonable to a large extent since the mess must be cleaned up and the financial sector needs regulation again. There are limits to what can be achieved here however. It is also necessary to look at fiscal policy, investments and labour. In these areas the tendency exists to look back only a couple of decades, say to the period of president Clinton 1993-2001 when the world economy seemed to do well. We must look deeper into the past however, because the period 1950-1970 contributed to the Great Stagflation that we are in.

See <http://boycottholland.wordpress.com/2013/02/24/cause-and-cure-of-the-crisis/>

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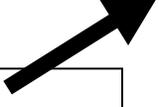
- (1) Trias Politica & Economic Supreme Court
- (2) Tax void
- (3) Dynamic marginal tax rate
- (4) Exposed vs sheltered economic sectors
- (5) Shift of the Phillipscurve
- (6) Stagflation and neoliberal answer
- (7) USA and China
- (8) European Union and Eurozone
- (9) Integrity in economic science: boycott Holland

(1) Trias Politica & Economic Supreme Court

Checks and balances

Trias Politica

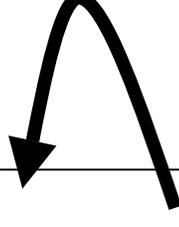
Legislative (Parliament, Congress)
Executive (President, Prime Minister)
Judiciary (Supreme Court)



Council of Economic Advisors (CEA)
Central Planning Bureau (CPB)

Tessera Politica

Legislative (Parliament, Congress)
Executive (President, Prime Minister)
Judiciary (Supreme Court)
Economic Supreme Court



Veto on the budget if the information is not sound

Reason for change

- World War I
- Crash of 1929 and the Great Depression (Keynes 1936)
- World War II
- Great Stagflation, including the current crisis
- Climate and environment

Hence

A constitutional amendment for an Economic Supreme Court

1996

<http://econpapers.repec.org/paper/wpawuwpgt/9604003.htm>

Updated: DRGTPE p 279

<http://thomascool.eu/Papers/Drgtpe/Index.html>

<http://thomascool.eu/Papers/Drgtpe/2011-10-16-DRGTPE-3rd-edition.pdf>

(2) Tax void

Summary of the solution to the current mass unemployment in the OECD area

1997

<http://thomascool.eu/Solunemp/SolutionToUnemployment.html>

1996 for the general public

<http://econpapers.repec.org/paper/wpawuwpgt/9604002.htm>

Updated: DRGTPE p 43

<http://thomascool.eu/Papers/Drgtpe/Index.html>

<http://thomascool.eu/Papers/Drgtpe/2011-10-16-DRGTPE-3rd-edition.pdf>

A win-win measure out of the crisis: A graphical discussion of the tax void

2009

<http://econpapers.repec.org/paper/pramprapa/14812.htm>

(3) Dynamic marginal tax rate

Current approach to optimal taxation (Mirrlees, Saez)

<http://www.ifs.org.uk/mirrleesReview>:

partial derivatives instead of total derivatives

This neglects dynamics

$$\frac{dT[y, q]}{dy} = \frac{\partial T[y, q]}{\partial y} + \frac{\partial T[y, q]}{\partial q} \frac{dq}{dy}$$

$$\frac{\Delta tax}{tax} = \frac{\Delta y}{y} \Leftrightarrow \frac{\Delta tax}{\Delta y} = \frac{tax}{y}$$

DRGTPE, p140

This error causes:

- a shift from direct to indirect taxation, i.e. from income tax to sales tax or VAT
- a lower tax exemption, or threshold in income taxation
- tax creep: keeping rates the same means that economic growth puts more people into the higher tax bracket
- and this puts the marginal rates into focus again.

The optimal solution:

- set exemption at the level of the net minimum wage
- indexation on economic growth instead of inflation
- VAT at 1% for the conjunctural cycle management
- gradual tax function rather than brackets

NB. Known at the Dutch Central Planning Bureau 1989-91

(4) Exposed vs sheltered economic sectors

Marein van Schaaijk (Central Planning Bureau 1983):

The Dutch policy of general wage restraint is targetted at solving unemployment by means of exports

But we see both export surplus and unemployment

The policy has

- too much restraint for the exposed sector with higher productivity and higher wages
- too little restraint for the sheltered sector with lower productivity and lower wages

Solution: use taxes and subsidies to balance wage cost reduction with net incomes

Extension of this analysis with the minimum wage

Differential impact of the minimum wage on exposed and sheltered sectors

1996

<http://econpapers.repec.org/paper/wpawuwpgt/9608001.htm>

Updated: DRGTPE p 149

<http://thomascool.eu/Papers/Drgtpe/Index.html>

<http://thomascool.eu/Papers/Drgtpe/2011-10-16-DRGTPE-3rd-edition.pdf>

A macro-economic lesson from Holland

2009

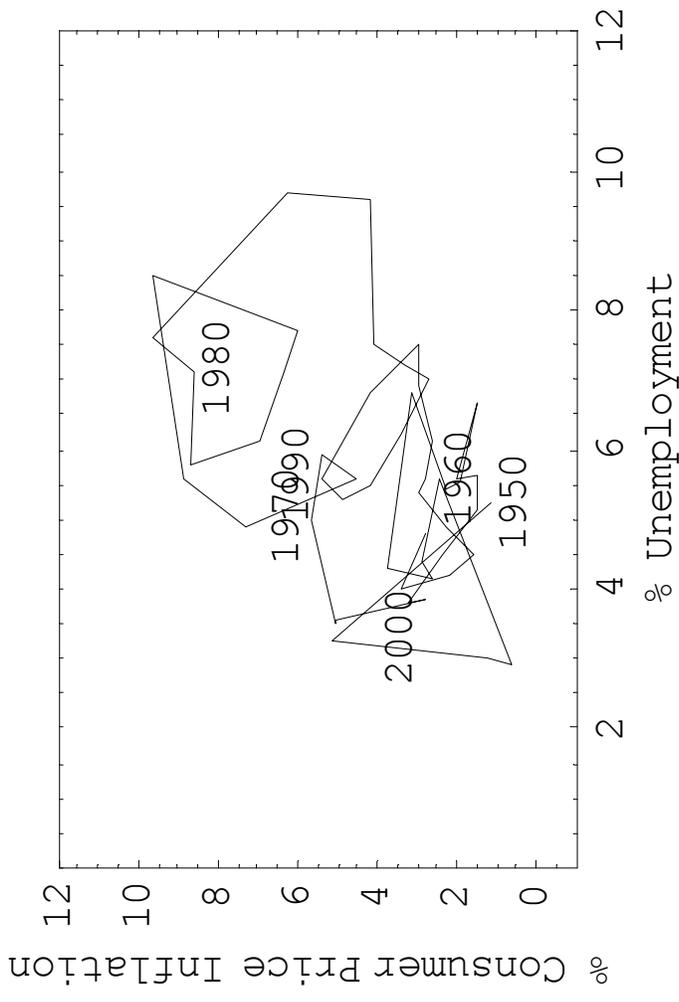
<http://thomascool.eu/Papers/Drgtpe/Crisis-2007plus/2009-03-31-MacroLesson.pdf>

More elaborate: CSBH p 15 and 87

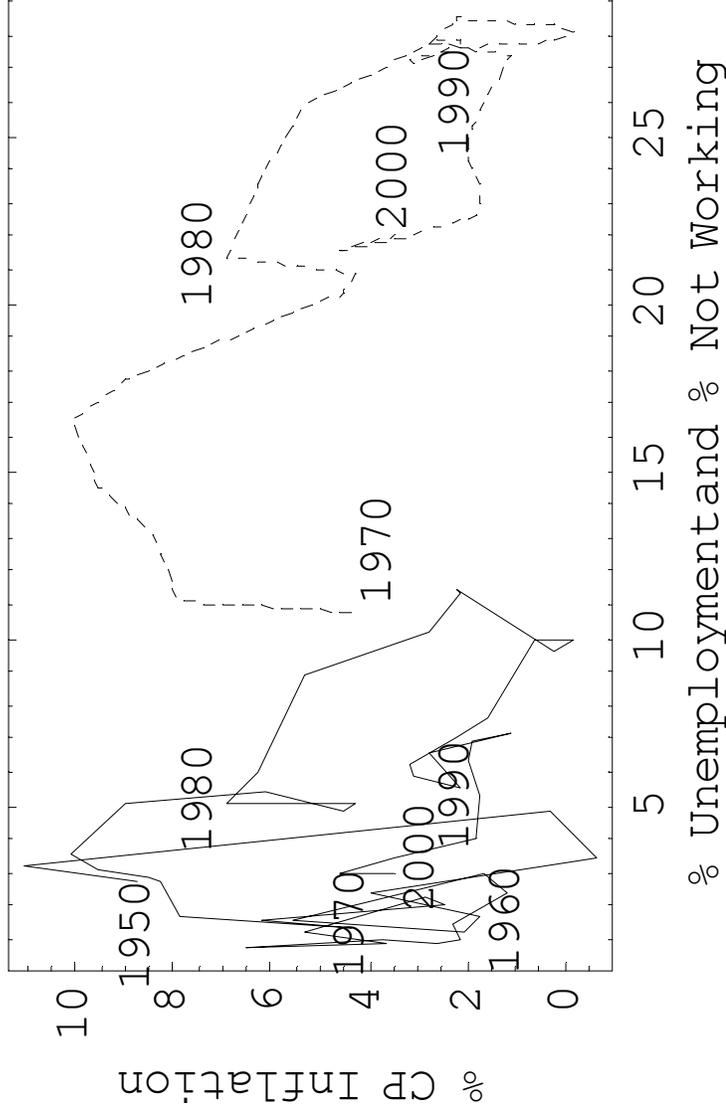
<http://thomascool.eu/Papers/CSBH/Index.html>

(5) Shift of the Phillipscurve

The Phillipscurve gives the theoretical or statistical effect of unemployment on (wage) inflation



The USA



Holland

The empirical evidence for **average against marginal tax** rates lies in the Phillipscurve (Johan Graafland, CPB 1990)

(6) Stagflation and neoliberal answer

The empirical evidence since 1950:

- **1950s**: low unemployment, low inflation, high real growth
- **1960s**: threat of unemployment, and governments accommodating inflation in order to prevent that
- **1970s**: mass unemployment bursting into the open, and governments accommodating high and *accelerating* inflation to battle it. Growth is volatile
- **1980s**: neoliberalism. Inflation is stopped with high levels of unemployment and stagnating growth as the price for stability. Deregulation as motor for growth
- **1990s-till-2007**: Europe appears reluctant to dress down the welfare state, accepts high minimum wages and more (hidden) unemployment. The USA appears willing to accept more poverty
- **2007+**: financial sector implosion, world economic crisis.

Taxes and the Keynesian years 1981-2007

2011, CSBH p 48

2012, <http://boycottholland.wordpress.com/2012/02/21/the-keynesian-years-1981-2007>

A modern fairy tale is that Ronald Reagan in 1981 started a supply side and neoliberal revolution, with lower taxes and deregulation of markets, such that the economic growth since then derived not from Keynes but from Hayek. Alan Greenspan believed that fairy tale and supported the Reagan revolution with his low interest policy.

It is a fairy tale because hard economic analysis causes these qualifications: (1) lower taxes also provide a stimulus, (2) lower rates of interest provide a stimulus, (3) deregulation releases funds that then scramble for investment opportunities (and investment is demand too).

Thus we actually had Keynesian years

(7) USA and China

USA

- world currency, presumably not managed
- financial deregulation
- higher labour costs
- low savings, consumption from loans
- import deficit, much facilitated by China

China

- managed float
- managed financial sector
- lower labour costs
- high savings, somewhat restrained consumption
- export surplus, much facilitated by USA

Consequence: US FED accepted a low rate of interest to finance imports and home employment. This fuelled debts.

(8) European Union and Eurozone

(1) Monetary union without political and fiscal union.

This runs against the theory of the **optimal currency area**

(2) EMU and Stability & Growth Pact (SGP) rules work out as a **gold standard**: debt in a currency not under control

(3) EMU & GSP neglect that the export surplus of Germany and Holland mirrors the import deficit of the other countries

(4) **Censorship and abuse of power**: Bernard Connolly

1996: "The Rotten Heart of Europe: The Dirty War for Europe's Money",
http://en.wikipedia.org/wiki/Bernard_Connolly

2013: "Why the Euro Crisis Isn't Over"

<http://online.wsj.com/news/articles/SB10001424127887324445904578285503854758408>

(5) Financial crisis without a Banking Union

Solutions

- (1) DRGTPE for full employment with stable inflation
- (2) CSBH for application to current EU crisis with monetary and financial aspects

High Noon at the EU corral. An economic plan for Europe, September 2011

2011, <http://mpra.ub.uni-muenchen.de/33476/>

Conditions for turning the ex ante risk premium into an ex post redemption for EU government debt

2011, <http://mpra.ub.uni-muenchen.de/35120>

- (3) Not (yet) in CSBH: amendment to **optimal currency area**

Money as gold versus money as water

2013, <http://mpra.ub.uni-muenchen.de/45759>

<http://www.paecon.net/PAEReview/issue64/Coignatus64.pdf>

(9) Integrity in economic science: boycott Holland

- (1) This synthesis for economic theory exists since 1990
- (2) The **evidence** till 1990 confirmed the theory already
- (3) The **evidence** in 1990-2007 confirms the theory too, see the Dutch export surplus (or export of unemployment)
- (4) The theory could have prevented the euro as it is now
- (5) The 2007+ crisis is **evidence** for the theory as well
- (6) Publication has been blocked by the directorate of the Dutch Central Planning Bureau (CPB). The directorate claims that the CPB is a scientific institute (though with special position within the Dutch government) but that claim is tainted. The directorate neglects the **evidence**
- (7) This presentation cannot show everything. Some aspects are still under censorship. Hopefully the general outline already carries the floor
- (8) Dutch society does not solve the censorship. Boycott Holland till it has solved this.

Thank you for your attention

In case you are interested in some of my other results

- A Logic of Exceptions: solves the Liar Paradox
- Voting Theory for Democracy: solves Arrow's confusion
- Elegance with Substance: re-engineers math education
- Conquest of the Plane: implements the latter
- Contra Cantor Pro Occam: a new approach to infinity
- The simple mathematics of Jesus: considers divinity
- The Economics Pack: applications of *Mathematica*
- Proper Definitions for Uncertainty and Risk
- Transport Science for Operations Management
- On the value of life: for cost-effectiveness in health
- Ecological survival: <http://mpra.ub.uni-muenchen.de/13899>

For navigating my site, see http://youtu.be/WS_R5ifOLXE