

How the Dutch helped cause Iceland's plight

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Some stories take years to unfold. In this case the Dutch Government twenty years ago blocked an economic theory from discussion that very likely would have prevented the Landesbankinn and Icesave ordeal. By this blockage to the progress in economic theory, the world remained dependent on the neoliberal and supply side theory that actually was too-liberal and created a roller coaster. To be sure, even on such a ship a no-nonsense captain could have steered a stable course as Canada has shown, and thus Iceland contributed part to its present situation. The main lesson to learn however is that the Dutch are still censoring that theory and that it is advisable to boycott Holland till this censorship of science is resolved. When the people in Iceland refuse to redeem the Dutch fully for the Icesave mess then there is a valid justification for it, that is, when they refer to this Dutch censorship of science. The international community is advised to solidly support Iceland in this and to get the Dutch Government to understand what science is about.

Since the theory is censored it is impossible to say exactly what it holds. Some elements can however be identified. The credit crunch clarified that the monetary system and the financial markets are not managed that well. People still tend to believe that social security and the labour market are managed reasonably well. This however is neither the case. The mismanagement in this area causes mass unemployment. Even sturdy Canada had a rate of unemployment in the last 20 years of mostly above 7% which would make us feel uncomfortable except for the fact that we have gotten used to it. Governments are blind to their errors here and to solve that unemployment it is precisely that they turned to a looser monetary policy and the liberalization of the financial markets. With re-regulation we are seeing stagflation rearing its head again.

Let us consider just two examples. It is commonly accepted that a spouse at home does not pay a premium for the national pension but still profits from it after age 65. On the other hand, a low productivity worker is assumed to pay the premium. The premium raises labour costs to above the level of productivity and makes that worker unemployed, making him or her eligible for a benefit. We also want to provide for better health. The same method applies. A main effect is that people in unemployment see their health deteriorate because of idleness, social isolation, poverty, eating patterns, and the stress that all these cause. Thus the plan to provide for better health causes worse health.

The key point in the censored theory is that the economy can only be understood when we also include economic theory itself in the explanation. The economy does not change by pure natural forces but also depends upon the economic ideas of governments and their economic advisors. Crucially, there can be misconceptions that cause miserable outcomes. In decentralized settings such mishaps may show up randomly over space and time. In modern settings, centralized decision making often means bureaucratic lock in, while also international co-ordination, and notably international adoption of rather uniform ideas in economic theory, allow much more scope for systematic error. After World War II governments set up systems of national economic planning but in the light of experience they are advised to each create an Economic Supreme Court to guide the economic policy making process. This ESC would be based within science rather than official bureaucracy, which extends Montesquieu's Trias Politica of the executive, legislative and judiciary branches. Politicians retain their say over the budget but its plan can be vetoed when the ESC considers its information misleading. If governments for example want to retain above two curious phenomena then they should clearly inform their electorate. The structural neglect of science in the political process has become too costly.

The theory and its evidence require proper expression and impartial evaluation. As an economic scientist I forcefully protest against the Dutch censorship and abuse of power. //