

# Economics, Finance and Politics.

Updated 2019-03-23

## Content

The dismal science.....	1
The state as Investor. ....	2
Equality.....	3
Boycot of Russia. ....	3
The informal Economy-Autarky.....	4
Purchasing Power versus Choosing Power.....	5
Basic Income.....	5
Banks. ....	6
Still a dismal science? .....	8
Literature.....	8

[Dr.l.noordzij@leennoordzij.nl](mailto:Dr.l.noordzij@leennoordzij.nl)

[www.leennoordzij.me](http://www.leennoordzij.me)

## The dismal science.

The book of Thomas Piketty: "Capital in the Twenty First Century" has provided a lot of excitement in 2014. And It continues (The Economist June 20th 2015). But why? Apparently because the rich are becoming richer. Thomas Piketty is a real socialist, so a product of our Western Judeo-Christian culture (Sorry Jews that you are always called in one breath with your persecutors).

So Piketty should not have any trouble with the rich who are becoming richer: ' He who has will be given and he who has not will be taken. ' Source indication of this quote is superfluous. However, the person responsible for this message did not realize that the message would form the basis for the ideology of jealousy. But fortunately: the poor are not getting poorer. Alas, that message is hard to digest.

Piketty extrapolates the past and has apparently never heard of the Black Swan. But his proposal to entrust the rich extra is considered to be attractive, especially in France. Of course, it creates good feelings. The rich disappear, the GDP descends, we all become poorer and more equal and therefore happier. Really? Or will there be some who are more equal? We become more unemployed. Also an accidental coincidence: the trade unions in the Netherlands want to tax wealth more to allow the Government – how communist/socialist we can still be – to create jobs. That is good. In any case, taxes should be up again, but now for all of us. So we do not notice it because we are all in the same boat.

In the Netherlands, business has to be taxed more. Great. The companies depart from our country. Increasing employment in unemployment. We become still more equal.

In Nederland weer 300.000 jongeren aan het werk. Hoe? Wel, de AOW leeftijd omlaag en het werk verdelen. Tja, dit klinkt allemaal bekend en is ook herkenbaar: Frankrijk. Het land van de 35-urige werkweek. Het goede voorbeeld voor het scheppen van werkgelegenheid. Of toch niet? Het werk verdelen tussen de deskundige werkende en de uiteraard minderdeskundige werkeloze. Waar zou dat toe leiden? Tot zoiets als de minder deskundige werkende en de meer deskundige werkeloze. A sort of regression to the mean. Capitalism in the 21th Century had ook net zo goed Communism in the 21th Century kunnen heten. Het gelijkheidsgeloof is binnen dat systeem 75 jaar gepredikt. Alleen weet Piketty ook wel dat binnen het communistische systeem sommigen wat gelijkjer waren dan anderen en daarbij steeds rijker werden door de dictatoriaal bestuurde staat. Geheel volgens de wensen van Lenin. It is just An Animal Farm.

Natuurlijk weet Piketty dat de groep armen, die niet steeds armer worden, een groep is van een continu veranderende samenstelling. Ditzelfde geldt voor de rijken. Een bekende valkuil. How to learn from Statistics. (Thomas Sowell, 2011).

Een wat pikante observatie in relatie tot "put your money where your mouth is" : De nieuwe rijke Piketty draagt natuurlijk met liefde een deel van zijn inkomsten uit de verkoop van zijn bestseller af aan de Franse overheid.

Von Mises: "The poor receives what they do only because rich people exist". It is harsh but a fact.

In the Netherlands a new report by TeldersStichting(2015) described the major flaws in Piketty's book. I like to cite one example and that's about Privatizing Social Security(Gupta). Using Piketty's love for the inequality  $r > g$  you might wonder why social security is not privatized indeed. Piketty turns this proposal down: 'the return ( $r$ ) on capital is extreme volatile. It would be quite risky to invest all retirement contributions in global financial markets. The fact that  $r > g$  on average does not mean that it is true for each individual investment'. Well, what more is there to say. Dismal science indeed. In Piketty's case we better denote it as a religion. Piketty is an advocate of the ideology of envy.

Having said that, do I have a serious problem with Piketty? Well, as we all know results of research are always premature. Mistakes, conclusions drawn on too small samples, neglecting false negatives, including false positives, etc. Especially in the dismal science there are lots of theories. So far so good as long as politicians refrain from shopping among these theories and based their policies on these theories. That is the problem. Politicians will not refrain from shopping and start making rules and laws on premature research results. With all the dear consequences. In July 2016 IMF reported serious flaws in the study of Piketty (The Economist).

## The state as Investor.

The state as an investor differs from the entrepreneurial state. The latter is an oxymoron. It still in the air. Stiglitz, Atkinson(Piketty's tutor) and among others Mazzucato, scholars still

strongly believing in an active role of government with respect to investment in R&D in order to stimulate innovation.

In *“Government and Innovation”* (Noordzij) Mazzucato and Stiglitz are discussed. Now we can add Atkinson (*Inequality. What can be done.*)

A citation: “Many of the most important inventions are initiated by government investment”. It is dispiriting to read again about the iPhone and internet (De Volkskrant, Sept. 19<sup>th</sup> 2015). Both technologies are not inventions but innovations. Entrepreneurs has been innovating using existing technologies. The technologies are indeed the result of a huge government budget for R&D(Vannevar Bush). By the way, I never heard the question: Why the government did not produce the iPhone? Having said that time and again America is mentioned when government investment for R&D is the subject matter. Well, of course America continued investing in R&D after the second world war to be prepared for the next war. It appeared to be the cold war. Even Vannevar Bush did not have the cold war in mind. At present, 2015, it is mentioned over and over again that innovation happens when government keep investing in R&D. As a world power America will continue to invest. Consequently, there will be opportunities for innovation. However, there is no correlation between R&D and innovation. Even there was one: correlation does not mean causation. The so-called innovation paradox. America is investing to be a world power and not to be a world innovator. For the latter you need entrepreneurs. To use expressions like the entrepreneurial state is only playing with words.

It is amazing that authors like Atkinson, Stiglitz, Mazzucato and others form the school of SOE’s are still focussing on the US and is so-called war budget. What are those scholars really longing for? War?

Again, as a consequence of such a huge war budget, there will always be an opportunity for entrepreneurs.

May be, this comes as a surprise: Stiglitz, Piketty and Mazzucato are now members of the committee of economic advisers of the new Labour leader of the UK. Corbyn already uses expressions like “The Entrepreneurial State”( The Economist). Isn’t beautiful?

## Equality.

Talking about opportunities: the scholars of equality, e.g. Atkinson, Piketty and Stiglitz, are busy to get inequality on the political agenda. Well, why not? However, it is a fallacy to think that equal chances or opportunities is a sort of human right. Equal chances you have playing a dice. We are no dices even no dices with brains. What do we mean by equal chances/opportunities? Government for example could organise we all have the same chance/opportunity to become an entrepreneur, an Einstein, an innovator(jobs)? This is nonsense. Nobody is equal, so there are no equal chances/opportunities. We are equal for the law. That is all equality there is.

## Boycot of Russia.

De Nederlandse tuinders die zich met hun producten volledig op Rusland hebben gericht zijn echt in de problemen? Zodanig dat de Nederlandse belasting betaler voor de verwachte verliezen mag opdraaien? Dat is vreemd. Deze tuinders hebben een maximaal risico

genomen door zich eenzijdig – de eieren in één mand – op Rusland te richten. Maar, door dit hoge risico hebben deze tuinders hoge marges gemaakt en kunnen de boycot gemakkelijk opvangen. Of toch niet? Als deze tuinders gecompenseerd worden, dan zijn er nog hele bevolkingsgroepen die veel verloren hebben bij de aan-en verkoop van aandelen. Dus belastingbetaler er staat je nog meer te wachten.

In his column in the Dutch newspaper “Trouw”, August 2014, Van Schie discussed this subject.

The title of the column reads: “Russian sanctions: being an entrepreneur means risk taking”.

## The informal Economy-Autarky.

These days (2016) people consider autarky of some sort attractive. Even politicians think there is a need to stimulate this. However, I do not know whether the politicians are aware of our market economy system with free transactions. Well, free transactions in the so-called Western world.

In our economic system, sometimes wrongly called the capitalistic system, prices, income, pensions, etc., are based on free transactions under the rule of law. Also our tax base is part of our free market system.

By stimulating autarky informal economy is stimulated as well. Consequently, the tax base is eroded.

In the present time, for example in The Netherlands, due to the already existing informal economy, the taxes are at least 10% points too high. To a detrimental effect.

By further stimulating the informal economy, politicians might ask themselves whether they are disrupting our free market economy. I am afraid there will be a feedback in the system leading to the unsustainability of our free market economy.

In an informal economy pension premiums are not paid. Taxes, needed for the healthcare system are not paid for, etc.

Detrimental effects of autarky(informal economy)? Well, there is a positive uptick.

Production in the informal economy is not part of the free market economy. So, productivity in the free market will decrease. As a consequence wages/salaries have to be reduced and a new dynamic equilibrium will be found. Will it? I have some doubts. In the so-called welfare states of Continental Europe, the labour unions-the archaic remnants of the 19<sup>th</sup> century-will most certainly oppose a reduction in wages. A necessarily adjustment will not occur.

Which politician has the courage to communicate the simple message that participating in the informal economy necessarily leads to lowering wages in the formal economy? The same politicians crying foul over growing inequality. Inequality due to their ignorance of the activities of central banks(The Economist 23<sup>rd</sup> of January 2016). Wait and see.

By the way pensioners, at least those drawing a pension based on a defined benefit scheme, are already feeling the heat of a reduction of their pensions.

Are politicians aware they are eroding the tax base unintentionally? In the Netherlands government is subsidising the flexibility of the labour market. This is done by stimulating so-called entrepreneurship-sce-(English for zzp). These sce's are not paying taxes. Normally these sce's would have been offered a contract by a company. For a lot of jobs these

contracts are no longer there. Companies need flexibility to adapt to a changing economy. Only older workers are in the comfortable position receiving copious benefits (The Economist January 23<sup>rd</sup> 2016). Nowadays a lot of younger people looking for a job can only get some work on the basis of a flexible contract-flex workers (man and woman). No permanent jobs are available. So the young become entrepreneur in name (sca's). Resulting in very low costs for the employers and no tax income for government. I do not know whether the resulting taxes on higher profits compensate for the eroded tax basis.

For the remuneration of these so-called flex workers (m/w), the employers should think again. I think flexibility comes with a price. Employers can react swiftly in an economic downturn by laying off these flex workers (m/w) and are not obliged to redeem fixed contracts. Consequently, employers should pay flex workers (m/v) more than employees with fixed contracts. This surplus in remuneration should be a personal pension deposit, sort of, by default for the individual flex workers (m/w). A major positive effect will be a lesser need of being active in the informal economy.

### Purchasing Power versus Choosing Power.

In various countries there are so-called National Planning Bureaus to analyse government budgets or the political programs of parties when elections are near. In The Netherlands this bureau is called CPB. This bureau uses their econometric models to make some forecasts with the assumption of moderate growth in The Netherlands. A recurrent concept is purchasing power. A result of the aforementioned forecasts is no increase in purchasing power due to an increase in the healthcare premium. This increase results from an increase in healthcare consumption. Well, this is a surprising conclusion. Even worse, it is a fallacy. Why? The citizens of The Netherlands, a representative democracy, are craving for more healthcare so they are willing or choosing to pay for an increase of their healthcare premium. Conclusion? A part or all of the increase in purchasing power is used for healthcare. A democratic choice. So everybody in The Netherlands is very happy. Politicians should communicate this choice with their constituents.

### Basic Income.

It is in the air again.

In the Economist (June 4<sup>th</sup> 2016) you can find a briefing on the subject matter with the title "Universal basic incomes". There you will find all the pros and cons of basic income. Also in one of the Leaders of the same issue the subject matter has been summarized. So I will not repeat all the essentials. Is it really paradise or just another utopia/dystopia? Whatever, for sure some have to do the job. In what way? Forced labour/slavery? Since the role of the state has to become more pervasive in order to get a few important things to be done. That is not at all promising. It does not look like paradise at all.

What is amazing is the experience we have already with basic income. So new experiments with basic income are not necessary, should be forbidden. The results of the very proof with basic income are available in some West-European countries. For example in The Netherlands. It is a disaster. It started some decennia ago with the immigrants or better guest-workers. These people started to work in dying industries, so naturally they became after a couple of years unemployed. Then the welfare state took care (sic) of them. They

were 100% subsidies by the welfare state and not stimulated to look for work, one way or the other. The result has been disastrous. The third generation is still without a job subsidised into apathy or into the criminal circuit. Celebrating their victimhood. Non social behaviour stimulated by a system of so called basic income without any stimulation to social participation amplifying non social behaviour(Scheffer). Anno 2016, about 50 years later it starts again experimenting with basic income. It is a shame.

## Banks.

Wat moet er nog over de banken gezegd worden? O ja, de banken hebben ons geld en genereren daarover een matig rendement. Soms gaat het grondig mis. Eigenlijk is soms wat vriendelijk uitgedrukt. Het gaat regelmatig mis.(Kindleberger, Reinhart en Rogoff) Als het dan mis gaat moeten wij, de Nederlandse belastingbetaler, ons geld om niet in grote hoeveelheden in de banken stoppen om ze voor een faillissement te behoeden of om deze banken te nationaliseren. De bankiers zullen hun bonussen die ze verkregen hebben met hun roekeloos korte termijn gedrag niet terug storten. Het voordeel is voor de bankier, het nadeel is voor de belastingbetaler. Ook al brengen wij ons geld niet naar de bank, worden we toch als belastingbetaler gedwongen om de bank te redden. Waarom? Wat te doen? Banken nationaliseren? Wat zijn de voordelen, wat zijn de nadelen?

Voordelen:

- Bij een redelijk functionerend parlementaire democratie hebben wij, de Nederlandse belastingbetaler meer mogelijkheden om roekeloze activiteiten van de banken te voorkomen. De DNB zou deze rol kunnen spelen maar die doet dat niet. Toen allang bekend was wat de gevaren waren van de subprime mortgages heeft de DNB ING niet terug gefloten.
- Het beloningsbeleid voor de bankiers kan gelijk worden aan dat van de ambtenaren. Dat is logisch. Net als ambtenaren geven banken ons geld uit. Als ambtenaren een fout maken die de belastingbetaler geld kost draait de belastingbetaler er ook voor op.
- De banken houden zich niet meer bezig met producten die ze toch niet begrijpen.
- De bonus discussie is voorbij. We behoeven geen argumenten meer te horen dat wanneer er geen bonussen uitgekeerd worden de “star employees”(The Economist , March 9th 2013) naar de concurrent vertrekken. Laten gaan is het beste . Het waren de “star employees” die ons financieel systeem op de rand van de afgrond gebracht hebben. De belasting betaler kon er weer voorop draaien. Het geld dat van de belasting betaler werd geroofd door deze “star employees” kon dus niet meer in de echte economie worden uitgegeven. Deze “star employees” hebben de recessie verergerd.( Frederic Bastiat)

Nadelen:

- Klantvriendelijkheid? Zal de klantvriendelijkheid afnemen? Dat zal wel meevallen. Klantvriendelijk zijn de banken nooit geweest. Een voorbeeld: Wie voor de economische en financiële crisis die in 2007/2008 begon zijn of haar spaarcenten investeerde in fondsen die door je bank werd aanbevolen haalde een rendement van

3% over 2007 exclusief inflatie en vermogensbelasting op de belegde spaarcenten. Dit komt omdat banken aan hun klanten producten aanbieden die tot bonussen leiden voor de adviseurs, maar niet noodzakelijkerwijs aanleiding zijn tot een positief rendement voor de klant. Als de klant in een indextracker had belegd was het rendement over 2007 15% geweest. Wat is er mis met bank bashing? Verder is door de automatisering het persoonlijke contact zo drastisch afgenomen dat het begrip klantvriendelijkheid aan herijking toe is. Goede software pakketten worden veel belangrijker.

Juni 2013 komt de commissie Wijffels met haar rapport: "Naar een dienstbaar en stabiel bankwezen." Toch een moment om de ogen uit te wrijven. Belangrijke conclusie: Bank moet alleen nog simpele producten verkopen. Was Wijffels geen bestuursvoorzitter van de Rabobank?

Bij banken geldt hetzelfde als bij de overheid: beleidsmedewerkers/ambtenaren zijn hard werkende mensen die oplossingen verzinnen voor problemen die er nog niet zijn en die er dus zeker gaan komen.

Hoe komt het vertrouwen terug in ons financiële systeem? Cheques and Balances zijn onmisbaar. Regulering en Toezicht is vereist. Het eigen vermogen van de banken moet zo groot zijn dat de aandeelhouders nadrukkelijker naar de kosten kijken. Bonussen vragen dan minder aandacht. Maar ook hier geldt dat blind vertrouwen niet helpt. Natuurlijk moeten we erop kunnen vertrouwen dat de Euro een ruilmiddel is en blijft. Een citaat van Stephen D. King is hier op zijn plaats: " Yet the idea that our problems considerably pre-date the crisis is not a widely held view: it is far more convenient to pretend that the whole disaster was the fault of a handful of bankers. A conspiracy of greed that led to the West's economic downfall. Admittedly, there are plenty of greedy bankers out there, but there are also plenty of policy-makers who took their eyes off the ball....".

Aan het begin van 2014 kunnen we constateren dat de politiek nu ook inziet dat de producten van de banken begrijpelijk moeten zijn en dat de financiële gezondheid even belangrijk is als de geestelijke en lichamelijke gezondheid.

Financiële producten verdienen dezelfde toelatingsprocedures als medicijnen: testen en nog eens testen. Een dwingende eis is dat deze testen reproduceerbaar zijn. Het lijkt erop dat voor deze testen nieuwe technieken moeten worden gebruikt. De gebruikelijke econometrische modellen schieten te kort door alle vereenvoudigingen: benaderingen rond evenwichtspunten. Andere en betere technieken zijn beschikbaar. Deze – ABM - worden echter niet of nauwelijks gebruikt. Waarom worden ze niet gebruikt? Helaas is dit een bekend verschijnsel: "not invented by us" door de economen. (Nature 2009)

Zodra we geld beschouwen als een commodity verliest geld zijn/haar betekenis. (S. D. King: "Without trust, economic growth will be in short supply. And with neither trust nor growth, society is in danger of disintegrating". En: "The problem of today is a problem of poorly allocated investments created by improper pricing of money and credits" ).

In The Economist van June 21st 2014 wordt in de column Buttonwood de problematiek nog eens samengevat. Onder de titel "Counting the cost of finance" schrijft The Economist: "...What justifies the high income earned by bankers and fund managers? One could argue that they have created a lower cost of capital for business in the form of low bond yields and

high equity valuation. But that is a tricky case to make: low yields are more the consequence of central-bank policy and the low level of inflation. An alternative view is that these higher incomes are what economists call rents: excess incomes earned by those with privileged economic positions. The financial industry is protected because governments and central banks will act to rescue it when it falters, in a way they would not do for chemicals, say. And the sector may also benefit from asymmetric information: some of the product it sells are highly complex and clients may not be aware of the full cost until the sale is made. The central question that the finance industry needs to answer is this: why has its increased importance been associated with slower economic growth in the developed world and a greater number of asset bubbles?"

**Juvenalisdilemma: Quis custodiet ipsos custodes?**

### Still a dismal science?

According to Keen starting printing money and all debts evaporate. In this way an interview with Prof. Keen of Kingston University started. This interview can be found in a Dutch newspaper De Volkskrant may 13<sup>th</sup> 2017. This printing money proposal is, according to Keen, based on the assumption of a bank lending money , for a mortgage say, creates new money of the size of the mortgage. New money? Well, this comes as a surprise. I am still thinking banks to be an intermedia for a saver and a borrower. There is no new money at all. On the assumption of the creation of new money, the annihilation of money is based. This will happen when redeeming the debt. Annihilation of money? I still think the saver will get her/his money back.

Still a dismal science indeed.

### Literature.

Atkinson, A. B., *Inequality*, Harvard University Press, 2015.

Gupta, A., *Thomas Piketty Made the Case for Privatizing Social Security*, [www.nationalreview.com](http://www.nationalreview.com), 2014-04-23.

Keen, S., *Can we avoid another Financial Crisis? (The future of capitalism)*, Polity Press, 2017.

Kindleberger, C. P., *Manias, Panics and Crashes*, Palgrave Macmillan, 2005.

King, S. D., *When the Money Runs Out*, Yale University Press, 2013.

Mazzucato, M., *The Entrepreneurial State; Debunking Public vs. Private sector Myths in Risk and Innovation*, Anthem Press, London, 2013.

Mises, L. von, *Socialism: An Economic and Sociological Analysis*, Yale University Press, 1962.



- Noordzij, L., *Government and Innovation*, [www.leennoordzij.me](http://www.leennoordzij.me), 2015.
- Reinhart, C. M. and K. S. Rogoff, *This time is different. Eight Centuries of Financial Folly*, Princeton University Press, 2009.
- Salomons, R., et al, *Groeien naar vermogen; een liberaal antwoord op Thomas Piketty*, Publication TeldersStichting 124, 2015.
- Scheffer, P., *Het Land van Aankomst*, DeBezigeBij, 2014.
- Sowell, T., *Economic Facts and Fallacies*, 2011, Basic Books, Perseus Group.
- The Economist, *Buttonwood RG-bargy*, June 20<sup>th</sup> 2015.
- The Economist, *End of the peer show*, October, 3<sup>rd</sup> 2015.
- The Economist, *Shifting the burden*, January, 23<sup>rd</sup> 2016.
- The Economist, *Universal basic incomes, Sighing for paradise to come*, June 4<sup>th</sup> 2016.