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ELECTRONIC VIVANT-EUROPE

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Summary : 1. Letter with the queen of England
2. In real time (article published in January 2008)

FROM THE EDITOR

Several months ago, the Queen of England was affraid by the brutality of the financial crisis and challenged the academic world on the lack of forecasting and anticipation of the crisis.
Following a first response from specialists in econometry and mathematical modelling, ten other professors, in closer contact with the real economy, submitted another point of view to the Queen. They told Her that some academics actually predicted the crisis but were not listened, partly because they belong to a minority. This point of view is particularly welcome today.

Meanwhile, our planet is turning into a village. There appear more and more new ways of communicating; mobility has become the lifestyle of the industrialised world, while poverty is still rampant in many countries.
Yet, everyone, at all levels, has to acquire possessions (**having**); to become a full member of society with rights and obligations (**being**); and to give and take in exchanges that one hopes are of benefit to all (**giving**).
To communicate is to grow, in and through exchange.

This reality brings two dangers threatening the equilibrium of the planet. The first is widespread financial precariousness in the midst of this growing mobility; the second is barefaced exploitation by credit institutions and banks which prevent a person from becoming self-financing.
This forms a vicious circle, which the Basic Income can break by having regard to the Real Time of each person.

1. LETTER WITH THE QUEEN OF ENGLAND

STRICTLY EMBARGOED UNTIL SATURDAY 15 AUGUST 2009 AT 00:01 HRS GMT

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10 August 2009

Her Majesty the Queen
Buckingham Palace
London SW1A 1AA

Madam

We are writing both in response to the question you posed at the London School of Economics last November – concerning why few economists had foreseen the credit crunch – and the answer to you from Professors Tim Besley and Peter Hennessy dated 22 July.

We agree with many of the points made by Professors Besley and Hennessy, principally those summarized in the next paragraph, but we regard their overall analysis as inadequate because it fails to acknowledge any deficiency in the training or culture of economists themselves.

Their letter rightly mentions that 'some of the best mathematical minds' were involved in risk management but 'they frequently lost sight of the bigger picture'. Many believed that risks had been safely dispersed and 'virtually removed' through 'an array of novel financial instruments ... It is difficult to recall a greater example of wishful thinking combined with hubris. ... And politicians of all types were charmed by the market.' In summary, they conclude, 'the failure to foresee the timing, extent and severity of the crisis and to head it off, while it had many causes, was principally a failure of the collective imagination of many bright people, both in this country and internationally, to understand the risks to the system as a whole.'

In addition to the factors mentioned in their letter, we suggest that part of this responsibility lies at the door of leading and influential economists in the United Kingdom and elsewhere. Some leading economists – including Nobel Laureates Ronald Coase, Milton Friedman and Wassily Leontief – have complained that in recent years economics has turned
virtually into a branch of applied mathematics, and has been become detached from realworld institutions and events. (We can document these and other complaints fully on request.)

In 1988 the American Economic Association set up a Commission on the state of graduate education in economics in the US. In a crushing indictment published in the *Journal of Economic Literature* in 1991, the Commission expressed its fear that 'graduate programs may be turning out a generation with too many *idiot savants* skilled in technique but innocent of real economic issues.'

Far too little has since been done to rectify this problem. Consequently a preoccupation with a narrow range of formal techniques is now prevalent in most leading departments of economics throughout the world, and notably in the United Kingdom.

The letter by Professors Besley and Hennessy does not consider how the preference for mathematical technique over real-world substance diverted many economists from looking at the vital whole. It fails to reflect upon the drive to specialise in narrow areas of enquiry, to the detriment of any synthetic vision. For example, it does not consider the typical omission of psychology, philosophy or economic history from the current education of economists in prestigious institutions. It mentions neither the highly questionable belief in universal 'rationality' nor the 'efficient markets hypothesis' – both widely promoted by mainstream economists. It also fails to consider how economists have also been 'charmed by the market' and how simplistic and reckless market solutions have been widely and vigorously promoted by many economists.

What has been scarce is a professional wisdom informed by a rich knowledge of psychology, institutional structures and historical precedents. This insufficiency has been apparent among those economists giving advice to governments, banks, businesses and policy institutes. Non-quantified warnings about the potential instability of the global financial system should have been given much more attention.

We believe that the narrow training of economists – which concentrates on mathematical techniques and the building of empirically uncontrolled formal models – has been a major reason for this failure in our profession. This defect is enhanced by the pursuit of mathematical technique for its own sake in many leading academic journals and departments of economics.

There is a species of judgment, attainable through immersion in a literature or a history, that cannot be adequately expressed in formal mathematical models. It's an essential part of a serious education in economics, but has been stripped out of most leading graduate programmes in economics in the world, including in the leading economics departments in the United Kingdom.

Models and techniques are important. But given the complexity of the global economy, what is needed is a broader range of models and techniques governed by a far greater respect for substance, and much more attention to historical, institutional, psychological and other highly relevant factors.

In summary, the letter by Professors Tim Besley and Peter Hennessy overlooks the part that many leading economists have had in turning economics into a discipline that is detached from the real world, and in promoting unrealistic assumptions that have helped to sustain an uncritical view of how markets operate.

We respectfully submit that part of the problem lies in the additional factors that we have outlined above. As trained economists and United Kingdom citizens we have warned of these problems that beset our profession. Unfortunately, at present, we find ourselves in a minority.
We would welcome any further observations that Your Majesty may have on these problems and their causes.

We remain your most humble and obedient servants,

Sheila C. Dow
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Peter E. Earl
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Malcolm C. Sawyer
Professor of Economics, University of Leeds and Managing Editor of the *International Review of Applied Economics*

Andrew Tylecote
Professor of the Economics and Management of Technological Change, University of Sheffield

2. IN REAL TIME

Time is money – and people have always tried to calculate time and make it pay.
To make it pay on the job through expeditious working, travelling and management; to make it pay on the sports field, where the fleet beat the slow; to make it pay, also, during education, where the young have to follow a course which demands success in a given period of real time – although today a bit more psychological time has been introduced.
This psychological time enables advertisers to practise illusion and make people think of better days. They regularly make **real deductions** from consumers' finances by means of credit.

At the time of the crash in1929 – a crisis due to an unfortunate policy of the American Central Bank

(1) and to excessive speculation – "psychological time" tipped the balance toward fear and loss of confidence. This showed clearly that the economy is driven by (i) the interpretation of events and (ii) confidence in the future.
Thus, the freedom of individuals and of groups influential in the economy nudges events in one direction or the other.

(1) President F.D.Roosevelt promoted an exaggerated use of borrowing by the State – as the Chinese do today.

Motivation in fact lies in the virtual: departure from reality, the imaginary possession of promised assets, confidence in games of chance and in money staked on artificially inflated riches.

After 1929 reserves had shrunk and President Roosevelt introduced a structured use by the State of credit: "you buy today **(in real time)** and you pay tomorrow **(in deferred time)**". In this way he practised a policy of budget deficit, which increased State expenditure.
This policy helped relaunch American industry and artificially raised citizens' purchasing power since many consumer goods could be bought on credit.

After World War II, the massive grants of the Marshall Plan ensured that Europe purchased goods made in USA.
This Plan was beneficial for it enabled Western Europe to rise rapidly out of its ruins, while the Soviet Union, which categorically refused the Plan, took many years to recover.

Credit can be beneficial if it **helps today for tomorrow without getting out of control**. *(2)*

(2) When out of control credit is a calamity. Look at Belgium's debt: it is hardly ever reduced and the taxes we pay go to paying the interest on a public debt contracted with some …private banks.
In such a situation credit is dangerous.
It is not the same with the Basic Income, which demands neither reimbursement nor interest and supports purchasing power and hence the economy.

One example, among others, of humanitarian credit is the Grameen Bank of Bangladesh, founded by Professor Muhammad Yunus.
The Bank lends for a week the money necessary for purchasing basic equipment or material inputs necessary for the exercise of a trade by an individual or by a cooperative, in the Third World, in Chicago, Alaska, etc..

However, credit in general and micro-credit in particular, if it becomes a global system, will make people as *dependent on credit as drug addicts are on their daily dose*.
Yet, without credit there's a crisis! This is the **vicious circle.**

VIVANT's socio-economic model can break this vicious circle, for it maintains purchasing power, without interest (Basic Income), relieves work of taxation and taxes corporate profits at only 15%.
Consequently, **both** the individual consumer **and** the busninessman can finance themselves without systematically having recourse to credit.

In the meantime, States and financial institutions continue to play on yesterday's time and tomorrow's in order to cannibalise the consumers' finances of today.

For example, banks have found it advantageous, when we deposit money with them today, to act as though it were deposited tomorrow, pretending that it's a way of paying the work time required by the transaction.
Yet these same banks work with computers in real time and achieve immediacy in their financial movements.
The Value Date is no longer justified and should be replaced by a fixed charge, independent of the sums involved – *for serving one kilo of potatoes is as much work as serving five*.
Time consumed by the bank is the same for €25 as for €250,000.

The State behaves in similar fashion. Take the example of a businessman to whom the State owes €50,000 by way of VAT reimbursement, which will be paid to him in one year (deferred time) while the same person owes to the same State €6,000 which he does not have and must pay within eight days. So he must take out a loan from a bank, which will charge interest on the money which he owns **in real time** but the acquisition of which is postponed by the State.

It is unacceptable. The situation where purchasing power depends in part on credit power is unhealthy and does not correspond to the economic reality.

Nowadays we have the possibility of working **in real time** at all levels, thanks to information technology. You think that's impossible? They do it on stock exchanges – why not, then, at the level of consumption and commercial and fiscal charges?
Real time is refused because it allows speculation.

VIVANT's proposal is to raise consumption tax **in real time** (by computer), to pay the Basic Income (purchasing power) **in real time** (monthly) and not to make it subject to labyrinthine administrative conditions. The businessman will know **in real time** what he has in his account and the ordinary citizen will know what he can be sure to receive each month.
They can thus become their own financiers, their own managers, and the development of consumption will no longer be dependent on the good will of the financial institutions, which, by offering credit, practise illusion on consumers.

The VIVANT model also assures that pensions will be **financed in real time** under the system of cost-sharing, which is under threat today owing to the lower ratio of the active to the inactive (retired, invalids). The active and the inactive, by paying consumption tax, will pay **in real time** for the active and the inactive.

Real time is the time of the individual to whom is restored the freedom to do business and manage life for the best.

Real time necessitates an education system engaged with social and economic reality. Archaeology is not the sum of culture, nor science fiction the whole vision of the future. Young people taught what is useful today, and their taste for learning awakened, will be capable of organising the development of their own lives and of their affective and social relationships in a real world.

Real time education engages young people with the reality of their lives, without, however, blotting out what is symbolic and of the imagination, wherein are born the inventions and projects for everyone's future.

In real time, today, recognition is necessary not for competences disconnected from the real world

but for those which facilitate communication with this world.
And where, today, are the places of education treating of communication with "the real"? Or those advancing the most accurate interpretation possible of the past and the present?

Such places still have to be invented and will appear only when our schools have thrown off their industrial-type organisation (large units) and found conviviality, so that people like being in them. Some schools do so act, but they are few.

The place of real time communication used to be in the family and, for a lucky few, in the school, which extended the experience of the family.
Today, we are confronted with a democratisation of studies and break-up of the family. Young people find it difficult to orient themselves and go to the places that offer the most intense experience of conviviality. Some, lacking plans for the future or a passion in life, choose television or rave parties; others, to develop their **real time** abilities, join humanist or religious circles, or sports clubs.

Confronted with this transformation of society, schools, financial institutions and government organisations should try harder to serve people **in real time** instead of weaving illusions around them, which they **deliberately maintain** by means of publicity and numerous promises.

Developing a **real time** organisation (be it physical or psychological) is to enable everybody to manage their own lives instead of enclosing them in a financial and cultural network in which conditions are paralysing rather than constructive for the future.

The today of globalisation necessitates fighting the fracture between rich and poor; it requires the powers that be to restore the contract of confidence between governor and governed, for it is high time that national authorities **really** find again their competence to govern in the face of the galloping subordination of markets to finance.

The today of education is to enable young people to bring their dreams down to earth, not only by allowing them to educate themselves and create their social and affective lives, but by offering them the tools they need to manage their daily relationship **in real time** instead of taking refuge in violence, a sign of solitude.

If our fellow-citizens were in a better position to handle their everyday conflicts the law courts would be less choked up with litigation between neighbours and better able to deal with more important cases.

If society, mobilising political will, began to seek more good for the greatest number, we should be able to develop the social capital necessary for successfully managing the today and the tomorrow of our human communities.
Real time, restored time, time given for a real cause – those are the aspects of economic and social life which are capable of driving everybody to strive for a more social Europe and more harmonious globalisation.

Jean-Paul BRASSEUR
(responsible for VIVANT-EUROPE)