

# BEYOND THE LIMITS OF CRISIS

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## Abstract

The recurrence of economic crises serves to illustrate the limits of neoclassical economics and the contemporary established models. The study of complex systems, evolutionary economics and interdisciplinary research offers the possibility of new developments. The concept of emergence represents an insightful argument against the well-planned and ordered nature of the social sciences universe. Complex systems research represents the viable alternative for sustainable growth in the following decades.

**Keywords:** *systemic crisis, sound development, societal innovation.*

## Introduction

The previous economic downturns have placed significant strains both on the real economy and the economic theory. Policymakers have been struggling to rise to the challenge, but as Stiglitz (2003) points out, in the process of shock therapy, the markets have received “too much shock and too little therapy”. Several text books analyze the crisis from different perspectives. Tantalizing insights on the economic crises are shared by Donnella et al. (1972) as a vision of the entire world in their book regarding the limits to growth. They described Planet Earth’s obvious limits and the need for growth through complex development models. Separately, the Club of Rome Report demonstrated that ignoring such approaches may bring the society and the environment into overshoot and on the edge of a total collapse. Nowadays academics and researchers have the strength and positive attitude to talk about the untold reasons of such crises development. The new philosophy has taken root, stating that what stands before us and what lies in front of us pales in comparison to what resides within us (Emerson, 1993). A majority of the 16 individuals identified by Bezemer (2009) and Fullbrook (2010) as having anticipated the Global Financial Crisis followed non-mainstream approaches to economics, with most of them identifying as Post-Keynesian (Dean Baker, Wynne Godley, Michael Hudson, Steve Keen, Ann Pettifor) or Austrian (Kurt Richelbacher, Peter Schiff). The theoretical foundations of these authors therefore differ substantially from those of more mainstream neoclassical economists.<sup>3</sup> In this paper we will restrict our attention to the Post-Keynesian subset, which we will hereinafter refer to as the Bezemer-Fullbrook Group.<sup>4</sup>

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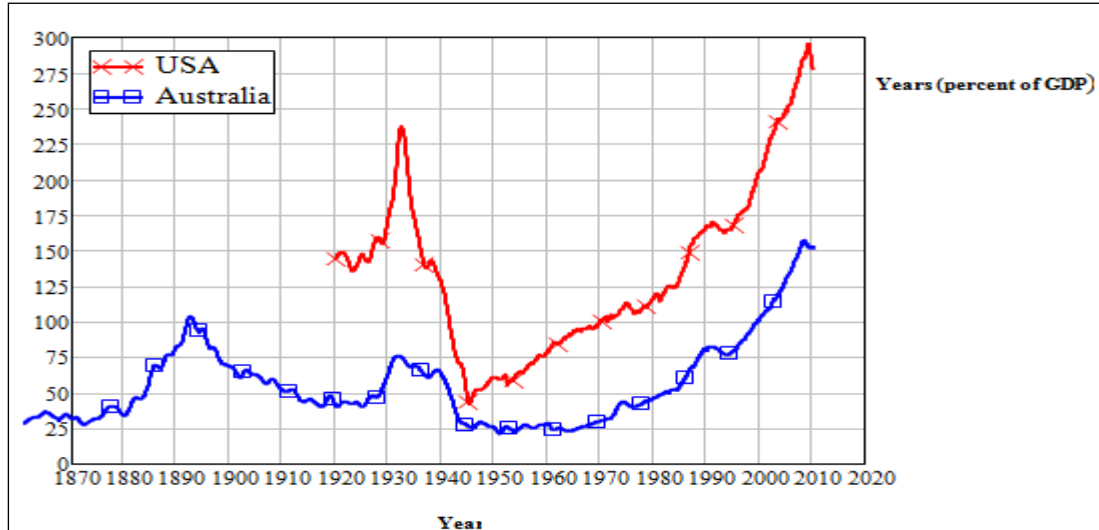
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<sup>3</sup> Bezemer’s list included four economists who could be regarded as close to the neoclassical mainstream, though all are to some degree mavericks: Nouriel Roubini, Robert Shiller and Jakob Madsen (together with his then student Jens Sørensen). The finalists for the Revere Award added two more maverick Neoclassical economists—Paul Krugman and Joseph Stiglitz. Fred Harrison applies Georgist economics. George Soros’s non-equilibrium approach of reflexivity cannot be classified in any of these more conventionally recognized schools of thought. Eric Janszen’s approach blends both Austrian and Post Keynesian economics, while expressing allegiance to neither.

<sup>4</sup> However, though there are in turn significant theoretical differences between Post Keynesian and Austrian economists, the shared focus on the role of credit in a disequilibrium environment generates substantial empirical overlaps in their analysis.

These authors made frequent references to the ratio of private debt to GDP, and the ratio of asset prices to commodity prices—both indicators of financial fragility that were emphasized by Minsky (1982) in his financial instability hypothesis, which is a common thread in the credit-oriented analysis of the Bezemer-Fullbrook Group.

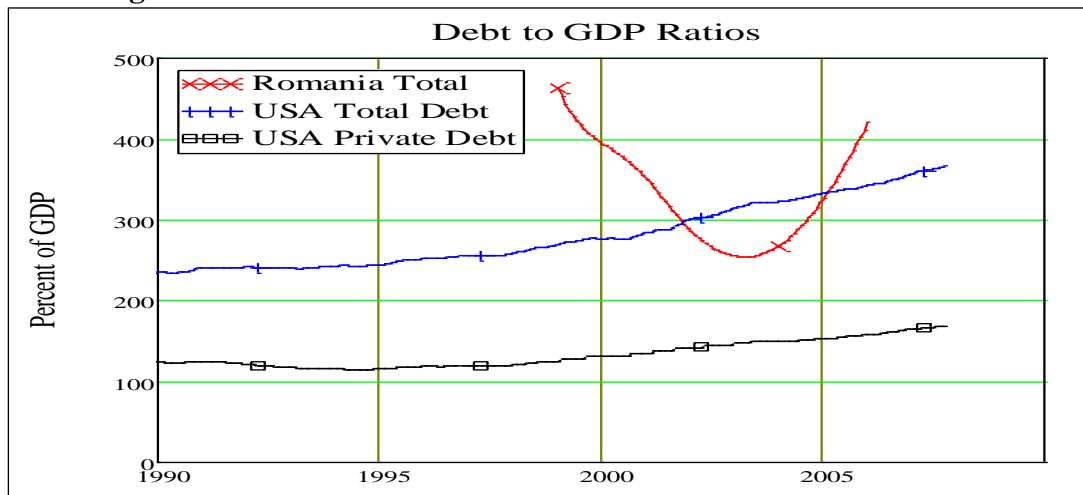
**Figure 1. Debt to GDP ratio for Australia and the US**



Since these indicators are not commonly considered in mainstream economic analysis, key data are shown below to make the differences from Ben Bernanke analysis of the Great Depression.

By observing figure 1 and 2 one can notice the fact that a similar pattern starts to emerge in developing economies such as Romania.

**Figure 2. Debt to GDP ratio for Romania and the US**



Contemporary research can benefit from numerous developments. The availability of techniques such as computer modelling or simulation techniques as well as the understanding of specific elements as dynamics, feedbacks, behaviours and network structures, permits researchers to implement a great policy shift. This phenomenon is comparable to the moment when big government structures first became fashionable in the twentieth century.

The evolution process represents an intricate interaction between organisms, the environment and life itself in a constant stride for improvement. Transposed from biology to

the field of economics and social sciences, the evolutionary process takes a societal approach and represents the dynamics of populations, behaviours or market activities based on external stimuli and repeated interactions (Vasile, Costea and Viciu, 2012). Individuals can be seen as the cells of a large super-organism which experiences evolutionary pressures. Once a critical mass has been reached in behaviours or activities, the world undergoes a stage of spontaneous evolution (Lipton, 2010).

Successful policy development requires several different perspectives. This fact was illustrated in the context of policymaking in security and infrastructure. Generating the right analysis is an essential element, asking the right question is an important starting point and getting support across the spectrum for a new research approach is the key. The right analysis has to address the right question. An example of this statement resides in the question: 'Is this railway worth paying for?' This is a good question and it searches for the entity that will pay for it and why. This is followed by additional questions regarding the payment between passengers or property developers and the taxpayer role in getting welfare benefit.

The fundamental questions have remained without an absolute answer. This is, in fact the challenge for scientists and analysts when providing models to decision makers. As models cannot incorporate everything, decisions are to be taken with regard to their simplification. Outcomes are inherently uncertain. They need to show the appropriate range of outcomes with specific degrees of robustness. Once policy makers get answers to such pragmatic questions, their work will definitely be inspired by academic thinking, and stride for the general wellbeing of society.

#### **How can the direction be found in a clockwork or uncertain universe?**

The manner in which we regard social systems is basically rewritten in the latter years by the emergence of complex systems. Stuart Kauffman (2010) adequately describes this in his work 'Reinventing the Sacred' where he contrasted the Laplace view of a clockwork universe with one of an inherently creative and uncertain universe.

A fundamental difference between the clockwork universe and the one dictated by uncertainty is the concept of emergence. In a simplified definition this represents the property of elements to combine and generate new elements which have distinctive characteristics than those which were initially introduced. This places emphasis on complex systems research since simplified static models are no longer considered accurate and efficient in describing social phenomena. Indeed, the notion that past representations and models have begun to show signs of ineffectiveness, is already present in numerous fields of activity. In economics, the neoclassical approaches have repeatedly been placed under the critical lens.

In his assessment of mainstream economic thinking, Keen (2001) underlines the intrinsic flaws of the current establishment and proposes evolutionary and complex systems research as a possible alternative. As Witt (2008) argues, the evolutionary economics approach represents a clear shift from the concept of equilibrium and optimal solution, which are so entrenched in neoclassical thinking.

A critical approach is required in any development process, as growth is expected to take place following creative destruction processes (Aghion and Howitt, 1990). Stable endogenous growth can only be achieved on solid ground. The solid basis of any model is represented by valid and flawless theory. As numerous holes have begun to appear in neoclassical thinking when it comes to the impossibility of profit maximization, macroeconomic utility and rational behaviour, the existent scenarios have begun to seem out of touch with market activities.

The road towards a new economy starts at the realization that the current theory is not suited for future development. Furthermore, increased interest and attention should be given to branches of research that deal with:

The rational exploitation of natural resources;  
The economic challenges which will be ushered in by climate change;  
The limits to introducing and maintaining green growth;  
The limits and basis of wealth creation in a global environment;  
Avoiding “uneconomic growth” (Daly and Bergh, 2002).

### Conclusions

Important changes have to be incorporated in the path to future development. The current economic models are flawed in their interpretation of the social environment and continue to be prone to crises and inefficiency. New economic thinking requires an integration of both human beings presence and influence together with other elements such as the rational allocation and utilization of resources, the limits of current models, the challenges of climate change and the risk of uneconomic growth. The first step in this new direction is represented by developing and disseminating a greater awareness and understanding of the phenomenon.

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