10.2478/vjes-2024-0019

In Foresight, the Economic Future Sometimes Conjugated in the Past Tense. Some Lessons from Experience

Alain REDSLOB
Panthéon-Assas University, France.
redslobalain@yahoo.fr

Abstract

Claiming that the future is merely an extension of the past can be considered a simplistic, if not fundamentally flawed, perspective. It is essential to recognize that while past events provide invaluable insights, we must exercise caution to ensure that our understanding of the future does not disregard the wealth of knowledge embedded in historical contexts. This understanding is critical for analyzing economic history, and it serves as one of the primary lessons articulated in this article. Moreover, when engaging in discussions of foresight, we mustn't detach our predictions from the realities that shape our world. This reality is characterized by diverse and multifaceted facts that often require an interdisciplinary approach for proper interpretation and understanding. Therefore, synthesizing knowledge from various fields can enhance our comprehension of the complexities we face.

In summary, the dual pillars underpinning effective decision-making tools are derived from the lessons learned through past experiences and the reliability of well-founded conjectures. We can develop a more robust framework for navigating future uncertainties by integrating these elements.

Keywords: *Gold, International trade, growth, equilibrium, public finances.*

JEL Classification: B1, B2, E0, F1, N0, O40.

Introduction

Past and present illuminate the future, if they do not determine it: so, it is with business and economic policy, just as it is with life. Economic theory is no exception, starting with the formulation of anticipations, mathematical or otherwise. Anticipation is vital, because it helps to dispel some of the fog that envelops tomorrow. We sometimes get the impression that we've come full circle by imagining the future trajectory of an issue, while omitting the lessons of experience. This is a mistake. Nothing justifies such an attitude, apart from pretentiousness or even ignorance.

© Author[s] 2024. This work is distributed under the Creative Commons Attribution 4.0. License [http://creativecommons.org/licenses/by-nc-nd/4.0/]

In the field of economics, a discipline that has only recently come to the forefront of history, it is tempting to boast of inventions that, more often than not, are no more than the updating of old thinking. As a result, seemingly outdated ideas can re-emerge to shape the future.

This contribution aims to demonstrate that forecasts in economic theory are more than just dependent on previous developments. Consider an allegory: when you're driving and about to overtake, neglecting the rear-view mirror can be fatal. It's like admitting that the after depends on the before. That's the way things are in our science. That's why we've had to make a selection of precepts and salient facts designed to establish a continuum - not necessarily linear - of understanding in economic theory. Let's examine them in turn.

1. Gold

Since ancient times, gold has been a safe-haven asset, so much so that it has been piled up and, more rarely, disbursed. Its appeal has not waned through the ages, quite the contrary. Thus, during the Renaissance, the mercantilist thinking that dominated for three centuries, from 1450 to 1750, propagated the idea that only the accumulation of precious metals, particularly gold, was a source of wealth [Piettre, Redslob, 1986]. Then, in the age of triumphant liberalism, it lost none of its superbness: here as a means of payment, there as a reserve instrument, it took center stage by far. Later, based on a dollar pegged to a gold parity, the Gold Standard and the Gold Exchange Standard confirmed its primacy.

The dollar's fall from the gold standard on August 15th 1971 meant, for some, that it was no longer part of the international payments system. The facts are stubborn. Even if gold does not form the core of an international monetary system which, in any case, no longer exists, it still occupies a very privileged position. In May 2024, the United States will hold 8,200 tons, Germany 3,350 tons, France and India 2,450 tons, Russia 2,300 tons and China 2,200 tons, to name but a few of the top 6 countries that stand out from the rest of the world [Trading Economics, 2024]. Not to mention private assets, of which the French are said to be the world's largest holders... Are these signs of decline? No, but a clear tendency towards precaution, reinforced by the attitude of smaller countries such as Brazil, Egypt, Turkey, Poland, Kazakhstan, Singapore and the Vatican, to name but a few. The uncertainty of global equilibrium has a lot to do with it.

The truth is that, to use John Maynard Keynes' allegory, gold may be barbaric, but it is by no means a relic. In other words, its past, however distant, continues to condition its future. Let's face it, gold foresight is firmly anchored in retrospect!

While we're on the subject of gold, a word about quantitative theory. First suggested by the French mercantilist lawyer Jean Bodin, the Irish banker Richard Cantillon and the English philosopher David Hume, and affirmed by a number of classical economists, foremost among them David Ricardo, this theory infers that price movements are closely dependent on the quantum of money in circulation. The lively academic and empirical debates that followed - such as the controversies between supporters of the Currency Principle and the Banking School - underscored its importance [Jessua, 1991, Shumpeter, 2004, Wolff, 1981]. A question then arises: in addition to monetarist, overtly neo-quantitative work, isn't today's desire for central banks to control, to a greater or lesser extent, the evolution of the monetary mass, a significant reminiscence of the old theory? And even if there are many other causes of price oscillations, we have to admit that a surplus or deficit of liquidity in an economy is anything but neutral.

So, while the blinker, steering wheel and gas pedal are all required for overtaking, no prudent move can be made without a careful look in the rear-view mirror. This seems to be the case when it comes to money.

2. International trade

In this area, reasoning is binary: either protectionism is adopted, or free trade replaces it.

Among the supporters of the former were the mercantilists, ardent defenders of the creation of a border surplus, sometimes through arms (Spain, Portugal), sometimes through aggressive trade (Great Britain, Holland), and sometimes through the creation of an industrial base (France). Then, as the 19th century drew to a close, the mercantilist vision was enriched by German thought (Friedrich List), American ideas (Henry Carey) and French policies (Jacques Méline). Finally, paying open tribute to the mercantilists in an appendix to his General Theory, John Maynard Keynes expressed his preference for a well-understood autarky [Bourcier de Carbon, 1992; Daneil, 2012].

As for the proponents of the second thesis, that of free trade, apart from a handful of precursors, including certain pre-classical authors and above all the physiocratic authors, liberal thinking dominated: Adam Smith's theory of absolute advantages, David Ricardo's theory of comparative costs, John Stuart Mill's theory of international values and, much later, Gottfried Haberler's theory of substitution costs demonstrated the superiority of free trade, with or without reference to the value of labor. Their successors, without dwelling on this aspect of their work, generally endorsed it [Blaug, 1981; Lanneau, 2012]; in truth, it's hard to imagine a liberal opposing... free trade.

Today, the diatribes persist. On the whole, free trade had its heyday in the second half of the twentieth century with a succession of rounds of international negotiation, but was curtailed in the new millennium, on the one hand by the desire to counter what was deemed excessive Chinese expansionism and on the other by advocates of de-globalization. What exactly is the situation?

The lessons of the past show that an autarkic system is hardly viable in the long term, if only because you can't produce everything you need yourself [Redslob, 2000]. On the other hand, unfettered free trade is hardly preferable, since it stifles weak countries and makes strong states more offensive. This is why forward-looking analysis must take two certainties into account. On the one hand, a subtle withdrawal coupled with a conquering animosity - cf. the attitudes of China and the United States - can only end in conflict, first latent, then open, as the impulse to dominate becomes omnipresent; on the other, a choice to conquer without protection - cf. European policy - inevitably leads to defeat. These two options, both of which had their moments of glory, must be kept in mind when we set out to think seriously about tomorrow.

3. Growth

Growth is a theme studied belatedly, simply because it was meaningless before the industrial revolution. Once again, economic science owes a debt of gratitude to the great Classics. Before them, apart from François Quesnay, who, in his famous *Tableau Economique*, could not extricate himself from a zero-growth circular model, there was no attempt to explain the spiral expansion of societies. [Deleplace, 1999; Redslob, 2020a].

Adam Smith and Thomas Robert Malthus in his wake were the first to explain the emerging upward movement. To their credit, they highlighted the decisive role of capital formation in the growth process. Thus, with the express proviso of respect for institutional factors - private property displayed and defended, freedom of internal and external exchange, advanced division of labor - Adam Smith rightly argued that the role of capital accumulation was primordial. On the one hand, it gives rise to a strong division of labor, stretching the scale of production and raising productivity; the result is additional profits, generating... capital accumulation. On the other hand, it enables the distribution of more generous wages, encouraging an increase in the population; the resulting rise in demand then increases the division of labor, which in turn encourages the accumulation of capital. It's clear that, from these two points of view, the original accumulation leads to a new accumulation that is superior to it: consequently, the expansion that has begun owes its impetus to the vigour of capital formation. In modern terms, this is nothing less than net investment, or capacity. Thomas Robert Malthus endorsed these hypotheses, but because of the alleged decline in investment opportunities, the law of population and the insufficiency of efficient demand, he condemned the evolutionary mechanism to an inevitable convergence towards a stationary state. When we take the time to reflect on later models, and more particularly the neo-Keynesian and neo-classical constructions - the Marxist model having become mired in its failures of under-productivity, camouflaged by discourses of success as false as they are distressing - we find capital formation as the primary cause. Mathematical sophistication aside, there's nothing new here [Dehem, 1984; Neme, 2001; Redslob, 2020b].

Prospective analysis, in this field too, is dependent on yesterday and today, both in theory and in practice. In theory, things are simple... for once: without dynamic new investment, there can be no expansion of activity. And, let's face it, in practice, they're not much more complicated: invest, invest, invest mainly in cutting-edge fields to stimulate expansion and beat the competition. In fact, it is this lack of investment that explains the socialist routs and the failure of so many developing economies to take off.

To sum up: despite the occasional innovative idea or initiative, there is no explained and/or predictable growth. If, in theory, sophistication is advancing, and if, in practice, the field of possibilities is widening, one point remains, and will remain: in the absence of new capital formation, no take-off of companies is conceivable. The “Great Old Ones” were right. In more ordinary terms, the rear-view mirror is more than useful!

4. Equilibrium

If there's one concept that's studied, scrutinized and considered crucial, it's that of equilibrium. In physics, it illustrates the tension between identical opposing forces: for example, does an aircraft remain suspended, does a public structure remain stable, or does a fluid remain contained at a desired level? In medicine, it enables walking or running, indicates a patient's mental state, or even detects the cellular state, revealing pathologies. In literature, it expresses the sway of rhymes, the harmony of tenses and the prettiness of style. In law, it translates the calibration of rules, delivers appropriate sentences and establishes equality. In politics, it fosters alternation, guarantees checks and balances, and encourages citizens not to get sidetracked. In social matters, it promotes equity, serene order and union presence. The litany of disciplines mentioned could easily be extended. But let's not forget the economy.

Jean-Baptiste Say's law of outlets, which asserts that every product created generates its own demand, underpins the automatism of equilibrium, while Thomas Robert Malthus's law of population, which predicts faster growth in population than in wealth, heralds a cataclysmic end to history. These laws describe two sides, one optimistic, the other pessimistic, of a pharmacopeia dealing with equilibrium but clearly dissociated from reality. Dogmatism, nothing but dogmatism! Wasn't this one of the pet sins of liberal authors? Let's face it, not all liberal recommendations were followed in practice, if they weren't contradicted by them. On the other hand, socialism and above all Marxism claimed to be the paragons of an illusory economic equilibrium, where ideology clearly took precedence over economics. The facts bear witness to the extent of their errors.

Closer to us, the Keynesians espouse the thesis of permanent disequilibrium, while the Liberals stubbornly believe in perennial equilibrium. Their opinions, based on centuries-old thinking, remain antagonistic. In other words, scientific harmony is not around the corner. This goes to show that foresight depends on the past.

5. Public finances

We can't end this similar story without mentioning the most vexing issue of all, i.e. the state of public finances. During the July Monarchy, Baron Louis (1755-1837) addressed the Council of Ministers to François Guizot (1787-1874): "*Give us good politics, and I'll give you good finances*". Something to ponder these days...

As far as the budget is concerned, while the principles of equity, certainty and practicality are given pride of place, the liberal thinking of yesteryear militated in favor of a rather reduced budget since it was limited to financing regal functions, but also a balanced budget, at least in peacetime: public spending had to be aligned with foreseeable tax revenues. On the debt side, again outside wartime, state excesses were denounced, as they made future generations bear the burden of present mistakes, mechanically reduced the state's capacity to intervene in order to amortize debt, and cut into the private sector's capacity to finance new capital. Known in modern theory as the crowding-out effect, this mechanism is, de facto, unstoppable.

In the 20th century, the State acquired a new status, intervening practically everywhere and in everything [Redslob, 2018, Montousse, 2021]. The All-State was born, giving rise to a theory of public finance. When put into perspective, several points emerge. Firstly, in France in particular, the state budget has not been in balance for...fifty years! Balance, the Maastricht criteria, the golden rule... so many ambitious claims for meager results! In fact, economists and politicians are constantly preaching a return to equilibrium in the long term, but they are preaching in the wilderness, and they know it! Foresight insists on being enriched by a virtuous past, but knows it is doomed. When you refuse to look in the rear-view mirror, you take unprecedented risks: you know it... but you do it! Secondly, the crowding-out effect uncovered by the Classics undermines economies, because it diverts abundant savings from productive uses: growth falters, unemployment rises. Here again, why not take on board the lessons of the past? Once again, there is no reliable forecast that does not take experience into account. Thirdly and lastly, the burden of public debt is becoming a millstone around our necks: in a few years' time, in France, it will represent the largest item of budget expenditure. An unprecedented situation caused by so much carelessness!

Conclusion

Now it's time to close if that's possible. There's no question of claiming that the future should be apprehended as a pure reproduction of the past: that would be to lapse into a naivety that is far from our own. On the other hand, in economics, at least, the effort to decipher posteriority cannot be made without considering anteriority. This is the main lesson of this article. In the face of growing uncertainty, including military uncertainty, any scientific approach must avoid two pitfalls: reducing foresight to the extrapolation of the past or confining it to forecasts that are disconnected from reality. Ultimately, based on interdisciplinary, theoretical foresight, one must ponder the lessons of experience as much as it must indulge in reliable conjecture. Then, without a doubt, it can once again become a relevant decision-making tool.

References

Blaug M. (1981), *La pensée économique, origine et développement*, ed. Economica.

Bourcier de Carbon L. (1992), *L'histoire de la pensée et des doctrines économiques*, ed. Montchrestien.

Daniel J.M. (2012), *Une brève histoire de la pensée économique*, ed. Devivevoix.

Dehem R. (1984), *Histoire de la pensée économique, des mercantilistes à Keynes*, ed. Dunod.

Deleplace G. (1999), *Histoire de la pensée économique : du « royaume agricole » de Quesnay au monde à la « Arrow-Debreu »*, ed. Dunod.

Jessua C. (1991), *Histoire de la théorie économique*, ed. PUF.

Lanneau R. (2012), *Introduction aux grandes théories économiques*, ed. Archétype.

Montousse M. (2021), *Nouvelles théories économiques, clés de lecture*, ed. Bréal.

Neme C. (2001), *La pensée économique contemporaine depuis Keynes*, ed. Economica.

Piettre A. & Redslob A. (1986), *Pensée économique et théories contemporaines*, ed. Dalloz.

Redslob A. (2020), *Evidences économiques d'hier et d'aujourd'hui : pensées, innovations mutations*, ed. L'Harmattan.

Redslob A. (2020), « *Sur l'intemporalité de l'efficacité de la recherche économique* », rapport introductif au 61ème Congrès de l'Association Internationale des Economistes de Langue Française (AIELF) sur le thème « *Pour une recherche économique efficace* », ed. de l'université Bernardo O'Higgins, Santiago du Chili.

Redslob A. (2018), *Histoire de la pensée économique, de l'Antiquité à nos jours*, ed. EdL, 7th ed.

Redslob A. (2000), *Théories d'aujourd'hui et de demain*, in Clés pour le siècle, ed. Dalloz.

Shumpeter J.A. (2004), *Histoire de l'analyse économique*, ed. Gallimard.

Trading Economics (2024), « Reserves d'or – liste des pays », https://fr.tradingeconomics.com/country-list/gold-reserves, 10.12.2024.

Wolff J. (1981), *Les grandes œuvres économiques*, quatre tomes, ed. Cujas.