

Is now the time to get rid of New Consensus Macroeconomics?

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The limitations of NCM

- The assumptions of individual rationality and perfect information
- The notion of equilibrium
- Neutrality of money
- No role for institutions, history or geography

Why is the NCM so influential?

- It suits the self interest prevalent in financial markets
- It suits the 'physics envy' prevalent in academic economics

**All economic models are
particularly bad at explaining
unique**



WALL STREET CRASH!

Black Thursday in America Stocks Plunge and Eleven Commit Suicide

Paris calling for the New York Stock Market yesterday morning. Creditors clamour for payment to get ready.

Market falls in its early morning session, followed by a sharp recovery of about 20 per cent. Before lunch the market rises and then falls to a low level during the afternoon.

In the session which ends lunch the market falls considerably with about 100,000,000 shares sold. For two hours there is a sharp recovery, but the market falls again during the afternoon.

The high early morning rally was a result of a recovery in the market and the heavy trading in the market. It is believed that the market will be kept up with the heavy volume of activity.

Crash Morning

A crash morning in New York's leading markets was followed by a fall of 20 per cent. The market was kept up with the heavy volume of activity.

Wall Street also found a measure of relief from the general depression. The market was kept up with the heavy volume of activity. The market was kept up with the heavy volume of activity.



Following investors gather around the statue of George Washington on Wall Street.

What Went Wrong?

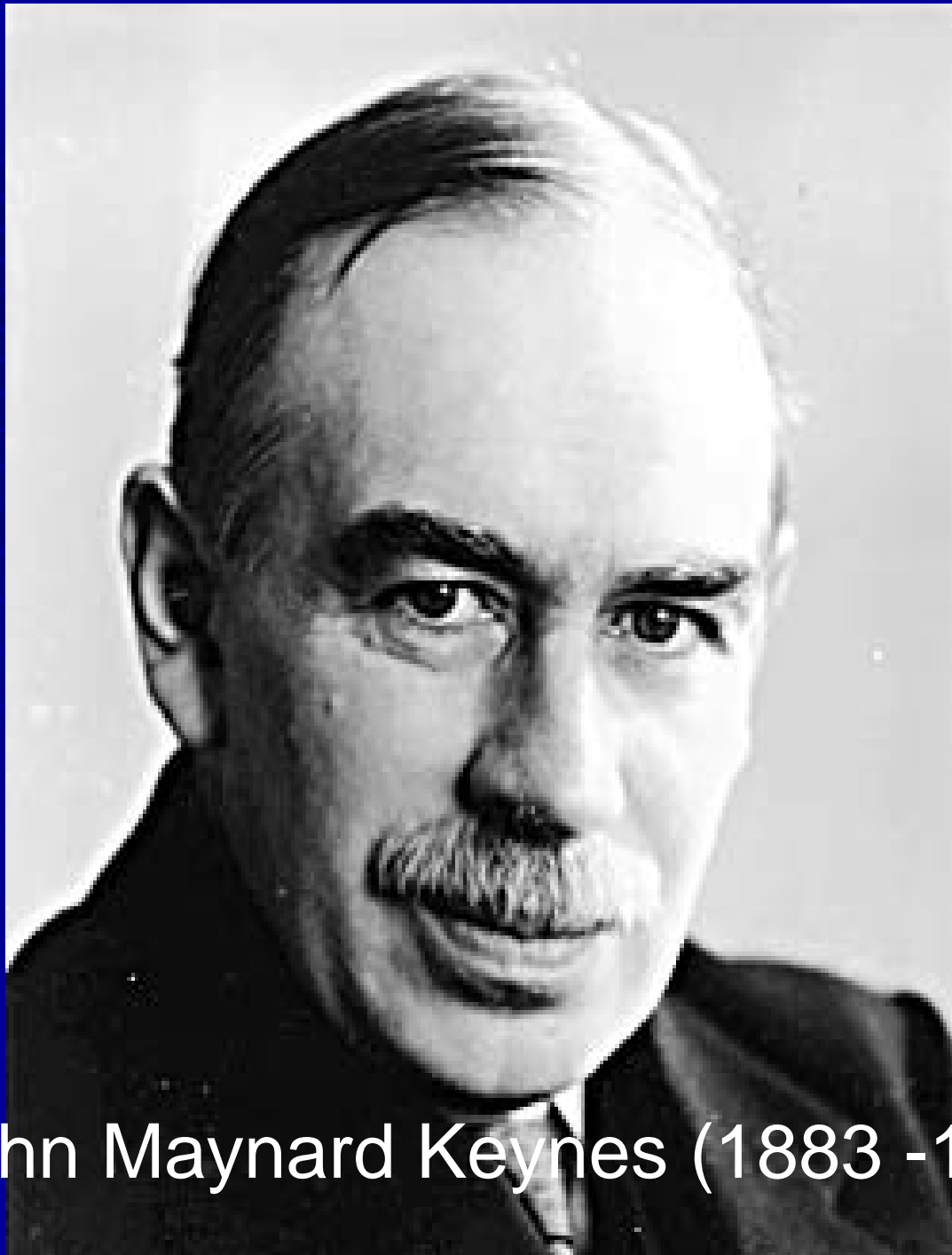
The initial reaction was of a crash in the market. The market was kept up with the heavy volume of activity.

Various reasons are given for the crash. The market was kept up with the heavy volume of activity.

Some believe that the crash was caused by the market. The market was kept up with the heavy volume of activity.

City of New York. The market was kept up with the heavy volume of activity.

Some believe that the crash was caused by the market. The market was kept up with the heavy volume of activity.



John Maynard Keynes (1883 - 1946)





Milton Friedman (1912
- 2006)



Margaret Thatcher (1925-)

15800	15800	15800-	15800	PROCT	22.40	20200	22.40-	250	TK
15800	15800	15800-	15800	FREDIAG	555	0	555-	110	THITY
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2274	2274	2274-	2274	SWPACI	257	250		204	ZHICO
257	257	257-	257	TRMT	257	250	250-	210	APURE
4249	4249	4249-	4249	USC				40	DAIDO
270	270	270-	270	ACL	202	204	202-	250	HTC
270	270	270-	270	AEDHTS	42	4350		47	KSL
270	270	270-	270	AITCO				250	LST
270	270	270-	270	ABL	270	270	270-	270	MALEI
270	270	270-	270	ASP	270	270	270-	270	HFO
270	270	270-	270	SC				200	OISHI
270	270	270-	270	BLS	270	270	270-	270	PS
270	270	270-	270	CHS	270	270	270-	270	POPPUI
270	270	270-	270	FMS	270	270	270-	270	PR
270	270	270-	270	CRK	270	270	270-	270	SAP
270	270	270-	270	ACST	270	270	270-	270	SINGHA
270	270	270-	270	ROIT	270	270	270-	270	SFP
270	270	270-	270	RC	270	270	270-	270	SORDON
270	270	270-	270	RC	270	270	270-	270	SBC
270	270	270-	270	RC	270	270	270-	270	TC
270	270	270-	270	RC	270	270	270-	270	TF
270	270	270-	270	RC	270	270	270-	270	TIPCO
270	270	270-	270	RC	270	270	270-	270	TUP
270	270	270-	270	RC	270	270	270-	270	TVO
270	270	270-	270	RC	270	270	270-	270	TWFP
270	270	270-	270	RC	270	270	270-	270	UNC



We are all Keynesians now

- Government intervention to manage demand
- Global financial regulation (Keynes: 'when the capital development of a country becomes the by-product of a casino, the job is likely to be ill done')

We are all regulators now



- We've had irresponsible capitalism presided over by irresponsible government. We need strong, responsible and proper regulation of the financial systems that underpin our economy.
- David Cameron, The Conservative plan for a responsible economy, October 17, 2008

We are all regulators now



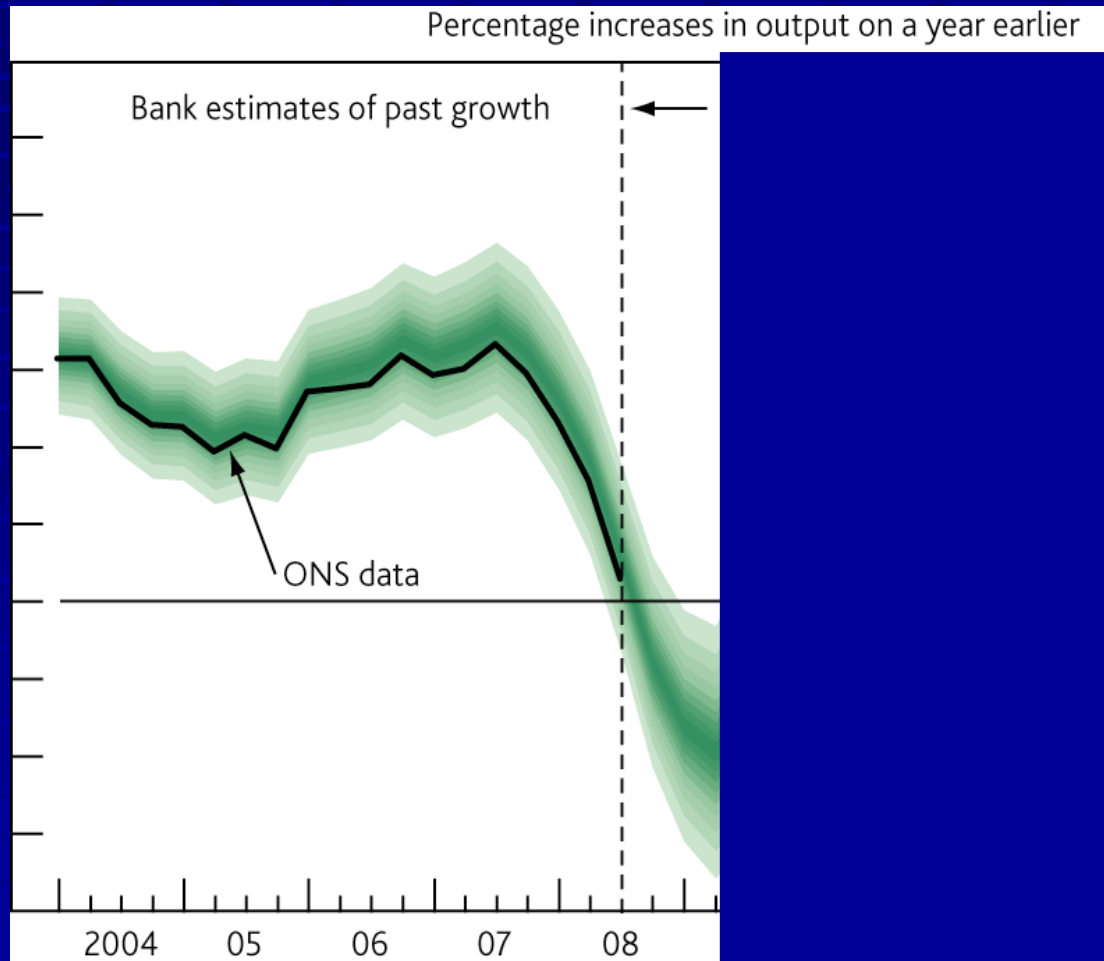
- The growth of the modern City as we know it was shaped byConservative decisions..... the big bang of the 1980s removed a huge swathe of regulation that allowed the City to expand and removed restrictive practices. The lessons from the City are clear. Low tax. Low regulation. Meritocracy. Openness. Innovation.
- David Cameron, The new global economy, June 22 2006

Well not quite all.....

- Inevitably, the combination of banking bailouts and chief executives walking away with generous payoffs, leads to calls for more regulations. But, in Britain at least, this should be resisted. We have regulations aplenty. More regulation risks damaging innovation and entrepreneurial activity that are vital to the success of the City of London, a crucial part of the British economy.
- Ruth Lea 'Spare us the meddlers' The Guardian, April 2008

GDP projection based on market interest rate expectations

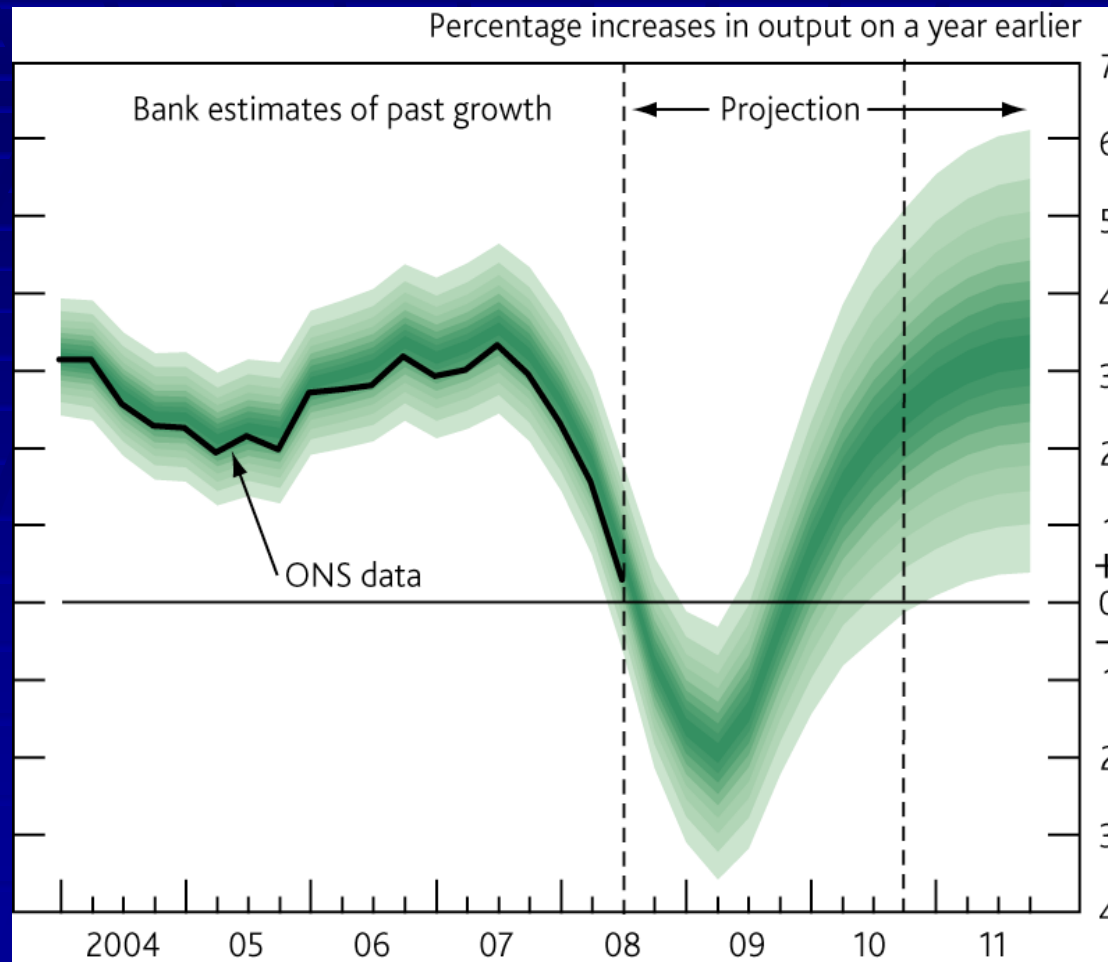
Source:
Bank of
England



The fan chart depicts the probability of various outcomes for GDP growth. To the left of the first vertical dashed line, the distribution reflects the likelihood of revisions to the data over the past; to the right, it reflects uncertainty over the evolution of GDP growth in the future. If economic circumstances identical to today's were to prevail on 100 occasions, the MPC's best collective judgement is that the mature estimate of GDP would lie within the darkest central band on only 10 of those occasions. The fan chart is constructed so that outturns are also expected to lie within each pair of the lighter green areas on 10 occasions. Consequently, GDP growth is expected to lie somewhere within the entire fan on 90 out of 100 occasions. The bands widen as the time horizon is extended, indicating the increasing uncertainty about outcomes. See the box on page 39 of the November 2007 *Inflation Report* for a fuller description of the fan chart and what it represents. The second dashed line is drawn at the two-year point of the projection.

GDP projection based on market interest rate expectations

Source:
Bank of England



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- Q: Is now the time to get rid of New Consensus Macroeconomics?
- A: Yes