

WHITE SWANS, BLACK SWANS

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Abstract: In a different manner, starting from Nassim Nicholas Taleb's 'Black Swan', the present paper offers fundamental notions about economy, in a more accessible and self-ironic manner, underlining, once again, the fact that relativity and subjectivity are here at home, which also explains the difficulty of making forecasts. The accent falls on the recent crisis, which has affected so many innocent people, and the author addresses the responsibility of the economist, but also our responsibility for our own behaviour. A certain cyclicality is invoked, an alternation of 'white swans' and 'black swans', to finally conclude that all swans are grey.

Keywords: Economy, crisis, Grey Swans, forecasts, risk.

1. INTRODUCTION

The Australians have taught us that not all swans are white, there are also black swans. Nouriel Roubini and Nassim Nicholas Taleb have introduced black swans in economy, assigning them specific significations. The present-day economic crisis, also called the 'black swan', has much to teach those who are willing to learn.

First of all, we have realized that not all 'swans' are white. Second, that 'black swans' are not entirely harmful, that they can be useful to the system, it only depends whether or not the system knows how to use them wisely - on what the ancient Greek called *phronesia*, the art of making decisions. For instance, in order not to lose your way in the Alps, it would be a good idea not to use a map of the Rocky Mountains, as you risk getting lost even more. Geography is diverse... Or, when wondering in the desert, you don't need a tie. Or, when going on a safari, it is not very indicated to invite a rhinoceros to have lunch with you.

It is difficult to make forecasts, especially about the future. Instead of using wrong forecasts and mistaken probability calculations, it is safer to rely on intuition and common sense (if available). In 2005, in the speech he pronounced when receiving the Noble Prize in Economics, Jeffrey Sachs, the artisan of the famous 'shock therapy', categorically declared in his book, *The End of Poverty* (2005), that economic crises are no longer possible nowadays and that in the following twenty years poverty will be completely eradicated all over the world! Poor, poor people, they do not even realize, they do not even know that they have less and that they will become rich.

One year after Sachs' famous speech, the great crisis of our times emerged, and it started in a way very similar to the beginning of the 1929 Great Depression. Things repeated 80 years later, a time when the economic science is said to have greatly developed, and when 40 Nobel Prizes in Economics have been awarded. We cannot refrain from asking what kind of scientific development is this, what have these great men been doing, if the result is the one that we are witnessing?

We have recently had the privilege to see another great Nobel Prize in Economics laureate (when he was 51), the nonagenarian Professor John Kenneth Arrow, of Romanian origins, and who is very well known in the field of the so called *Welfare and Public Choice Economics*. This man has investigated, for over 60 years, with serious mathematical and statistic instruments, the way in which public and social decisions can be optimized. His scientific demonstration poses more problems than it solves, and manages to prove that the conditions for the existence of a real general economic balance are not met, at least not in real

economy. His great accomplishment is the ‘impossibility theorem’, which argues, with arguments, that there is no coherent and stable rule, which could optimize collective choice, public decision. We cannot stop wondering: why did it take 60 years and a Nobel Prize to get here?

2. WHITE SWANS, BLACK SWANS

After 1933, God said: Let Keynes be. And so it was. Today there is Sachs, lost somewhere in Africa, there is Arrow. But we do not think they were created during the same divine term of office. Then, there is Paul Krugman, who ordered the markets to stop the crisis, and Thomas Friedman, as flat as the earth of globalization, and there is Ben Shalom Bernanke, the dollar printer, etc. However, the architecture of the casino economy has not changed. The system of the ‘overflowing economy’ and of the ‘irrational exuberance’ (Alan Greenspan) is at its right place, which means that the risks of falling back into recession are great. We are in Extremistan.

We have also learned that any *leu* which is not lost is a won *leu*. This is the difference, also inspired by the ancient Greek, between committing and omitting. Therefore, one can sometimes win more by not doing anything. What matters is the situation you are in, that is your welfare. If you feel well wearing a tie in the desert, you can wear it in a triple knot, and this is why there are tie sellers in the desert. If you feel better if you give away that *leu*, do it right away. If you do not do so, you can lose it in poker. What goes around comes around. But, as the saying goes, it’s better to be healthy and wealthy than poor and ill. Better have a long and good life than a short and bad one.

Therefore, before thinking about profit, one has to avoid loss. Just as in medicine, it is more important to prevent than to have surgery. However, there are people who have surgery, in order to put rings in their bellybutton. You may not believe me, but it is possible to live without them. Not all ‘models’ are models, just as not all ‘counsellors’ are counsellors. And acrobatics are useful, but only in circus. First of all, we need bread, and it is only afterwards that we can show off, but only at the circus. No one will find out about you if you do a boring but useful work in an institution, as people usually consider that institutional mechanisms are all plain sailing; however, if you can walk on a wire, you will be considered with much respect, and you may become an Einstein of economy.

In economy, one has to risk, and in a conscious manner. Only he who doesn’t take risks cannot lose... nor win. But economy is not necessarily a game with a null sum: everyone can win, not the same amount of money, of course, and everyone can lose. However there is a special case where what some people lose goes in the pockets of the others – a form of socializing. It could have even drawn an underlying principle, according to which profits are concentrated into fewer and fewer hands, losses are socializing and we, the citizens, are paying them through tax growth or inflation.

It is usually a good thing to have some knowledge about economy. Sometimes, we even need it just as the diabetic needs insulin. However, even economic knowledge has important limits, as you can see from what we have argued so far. But this limit may be blurred by the limits of understanding of the addressees. As Constantin Noica said, there are limits which close and limits which open up new horizons of knowledge. We pointed out above that it is difficult to make forecasts. Even historians fail, most often, in ‘forecasting’ the past. The past politely refuses them, it does not submit to the scientific approaches they impose on it. This is even more the case with the future (the present escapes us anyway, as we do not more than live in it?).

Most limits are related to finance. The most difficult thing is, as Rockefeller used to say, to make the first million dollars. Afterwards, everything is easier, more elegant. The

question is, therefore, how should we make the first million? There are two possible solutions: smart work for several lives, or corruption. What matters is to be in the right place at the right time... for somebody else. But whatever way you may take, you will be rightfully rewarded, sooner or later ('give time to the time', as Francois Mitterrand used to say, as time is in itself a source of money), in a way, with the specific means of the respective path, or of another one. For instance, you can go to jail, or die, at peace with yourself.

Man has multiple needs and he places each of these needs in his own order, according to values which are important to him, and this is why there is no disorder on a normal market, even if everyone tries to maximize one's degree of satisfaction, or even of pleasure, as pleasure is part of life, but it is true that one has to pay for it. Just remember a truism: everything has a price. Men's needs or necessities and their attempts to satisfy them form what we call *aggregated demand*. It has an elastic size: it increases with revenues and drops with the rise in the products' prices. You may have noticed that when revenues rise, prices rise even more, whether this is related or not to the real economic performance – a fact which may seem strange. American economist Irving Fisher had launched in 1911 his famous formula, later rehabilitated by the monetarists: $M \cdot V = P \cdot Q$ that is the stock of money in circulation multiplied by its velocity of circulation should be equal to the quantity of goods and services multiplied with their prices. Well, no one observes it nowadays, starting with central banks, which should be the guardians of the currency's health. And, here again, surgery is the ultimate solution...

Demand stimulates offer, although some specialists argue that things happen the other way round and this should come as no surprise when considering the inflation of manipulative techniques. There are substitutable goods and complementary goods, and the Westerners argue that they are rare and that we should fight for them (*homo homini lupus*), while the Orientals consider that they are in a sufficient quantity and that our desires and splurge are the ones to be regulated. The question is how to better allocate resources in order to maximize welfare. Man is a calculating animal, but he always gets to a form of compromise, which disgraces or not. Try to calculate, for instance, if it is better to read or not to read an economy course book? We think that you would better not, as you could be influenced by it. Most Romanian entrepreneurs only have done secondary studies. So one's mind must be at rest.

3. GREY SWANS

Let us take the case of medicine, a sister of economy. Both pretend to save lives. Well, isn't it better to wash your hands than swallow antibiotics? So hygiene is related to medicine, just as rest is related to economy. As work and rest are the same, when you do the right calculus, aren't they? Most revenues no longer come from work, but from speculations. But investing in intelligence is also a form of work. And if you ask the question, who doesn't consider him/herself to be smart? Character poses more problems, as 'where there is no moral there is corruption and a society without principles that is it doesn't have them'. I am afraid we will have to re-moralize economy...

There is a whimsical term in medicine: *iatrogeny*, which refers to the evil done by the healer. We could borrow this term and call *economic iatrogeny* the evil done by economy therapists. It is a mystery how these specialists managed to create so much evil in the name of scientific knowledge and wealth. And all that they receive as punishment is a noble and precious prize. Religion saved many lives removing men from the doctors and discouraging over enrichment. We can see now churches opening hospitals and priests basking in abundance. It is a good thing if disciplines have started to work together...

Economic knowledge does not do us any good if we are not aware of its limits and costs, as thus we will not be able to apply them and this will lead to serious damage. Do not

trust ratings given by agents, nor risk evaluation companies, they should also have had impact on the crisis. Learn assurance culture. Respect time, get inspiration from nature, as it has more experience. It is better to be a creditor than a debtor, it is better to be an employer than an employee. Bankers will get rich anyway, irrespective of their performances. Learn how to save money by squirreling away, it is the best way to avoid the crisis. Do not overspecialize, learn being polyvalent. No work is shameful.

Revise your forecasts as frequently as possible, permanently update your performances, but do it from qualified sources. Try to adopt a moral conduct and help your fellow beings. Surround yourself by people you can trust. Avoid conflicts and stress. Think positive and visualize beforehand the results that you are striving towards. Create the reality you need. There are other forms apart from Gauss' bell. Accept the role of rare events, as we are living between glaciations. Life expectancy is not as high as we think, nor are the profits of risky investments, so do take action on time and seize opportunities as soon as they appear. Do not mix the absence of volatility with the absence of risk and incertitude. Compensate complexity with simplicity. Do not play with dynamite, even if it has a warning label. For instance, 9% of the Romanians' income is spent on tobacco derivatives, that is, it turns into smoke, just as health does.

4. CONCLUSIONS

You see, nothing should be 'too high to fall'. Usually, those who hide a high quantity of risks get into this situation. So they need to be stopped while they are still relatively small, in order to preserve the positive conditions of competition, and combat monopoly effects, in almost any field. Do not trust the crazy things politicians say, do not rely upon them. When someone goes through withdrawal it is better not to offer him/her any drugs. And if you have broken the eggs in the basket, make a huge omelette and prepare in advance for a calm retirement.

And do not forget that we are mortals. He who knows himself and his destiny will be difficult to overcome by the crisis. This is a good way to reach that *summum bonum* Seneca was talking about. And Montaigne said that 'philosophising is learning to die'. Try to create as few addictions as possible. Those who, for instance, have become addicted to the *papillon*, are difficult to understand. Or, if you are offered a Lamborghini, and after a while it is taken away from you, you will be sadder afterwards than before, when maybe you were not even dreaming of such a thing. Be prepared for everything, every day. Wealth is not evil by itself, but it is bad to become dependent upon it, as you will suffer when you lose it, and even more so if you have not cultivated the stoic *apatheia*, self-sufficiency, so that you may always calmly say: *Nihil perdit*.

So a real good is what cannot be taken from you, and it is in such goods that we need to invest, and take them with us wherever we go. It is thus that you will become strong, irrespective of circumstances, and you will no longer [veer about like a weather cock](#). Man can defeat his fate, but not his destiny. So, to paraphrase Nietzsche, we can say: Defeat your fate and love your destiny. Or, to paraphrase Marcus Aurelius, cultivate your courage to change what can be changed, the patience to wait when faced with what cannot be changed and the wisdom to make the difference between the first and the second.

If comes to the worst, it takes only a 'black swan' to destroy an economy. Its impact could be an extreme one, but its predictability proved to be only retrospective, never prospective. What we do not know about it is more relevant than what we do know, as its main reason seems to be a too great confidence in knowledge and the excess of quantitivism. We need to avoid extremisms, excesses and remember the holy middle way. In the end, as someone put it, all theories are grey. It seems that this colour has a past but also a future.

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