THE ÜMLAUT

Europe Between Planners and Searchers

By: Dalibor Rohac – March 27, 2013

In his 2006 book, *The White Man's Burden*, William Easterly makes the distinction between "planners" and "searchers" in economic development. Planners like to believe they already have the answers to big questions of economic development, which they often see as simple engineering problems, waiting to be fixed by enlightened political elites.

In contrast, searchers display more humility both in the choice of questions they attempt to address and the answers they provide. Searchers try to address local, context-specific problems, instead of coming up with a "Grand Theory of Development," and are willing to accept that answers might arise from the bottom up, through experimentation, and trial and error.

Although Easterly's interest is in economic development, the distinction between planners and searchers is at the heart of many public policy disagreements. And in spite of appearances, the planners versus searchers dichotomy is not an ideological distinction. Some free-marketeers are keen on particular one-size-fits-all solutions (think about proponents of the gold standard), and there may well be people on the political left who understand the idea of context-specificity and local knowledge.

In fact, there is a place for both. Hayek once famously wrote, "this is not a dispute about whether planning is to be done or not," but rather a dispute about whether it "is to be done centrally, by one authority for the whole economic system, or is to be divided among many individuals." Individuals, firms, and governments do—and *should*—plan. A problem arises, however, when the limits of planning are not recognized and when it is expected that the planner always has a correct answer to any policy question.

Hayek devoted his life to explaining the pitfalls of one instance of such hubris—the command economies of the Soviet Union and Eastern Europe. While in no way commensurable with the atrocities of communism, the ideological commitment of European political elites to the European integration project may well enter history books as yet another illustration of such bloated self-confidence.

Europe has a long-standing "planning" tradition, which the European integration process has mirrored. This intellectual undercurrent encompasses the belief that governments should play an important role in the economy, but more importantly the belief that European countries need to move towards a political union. A corollary is the notion—implicit in European policy debates—that Europe's problems require *a common European response*.

Though initially prompted by an ambition to enlarge markets and preserve peace in Europe in the late 1980s, economic and political integration became a one-way street.

The Maastricht Treaty, signed in 1992, stipulated that a single European currency would be created—famously without devising any mechanism for leaving the monetary union.

From then on, the European Union has been on a unidirectional track towards becoming a political union. The Lisbon Treaty, which became effective after Czech President Václav Klaus begrudgingly signed it into law in November 2009, cemented this trend by moving from unanimity to qualified majority in several important policy areas and empowering the European Parliament, among other features. At the same time, however, a sovereign debt crisis began to unfold in the European periphery.

Europe's response to the crisis reflected the planning mentality of its leaders. Rather than recognizing that the monetary union—instead of being the promised catalyst of prosperity—contributed to accumulation of fiscal and external imbalances in the periphery and trying to find ways to go back, politicians insisted that there was nothing flawed with the existing institutional structure that more political unification could not fix.

Instead of a prudent devolution, Europe got more planning and a "whatever-it-takes" attitude—bailout funds have been created to shield ailing banks and governments from markets and closed-door European summits have become the principal venue where decisions over Europe's financial future are made. A full fiscal union, unthinkable until recently and still unpalatable to voters in countries like Germany, is now being entertained as a perfectly respectable, though slightly premature, option.

As often happens whenever ideology is confronted with unpleasant facts, Europeans also face a cognitive dissonance between the promise of a better functioning, more closely integrated union, and the ongoing economic mess—which is arguably getting worse, not better. If planning is not working all that splendidly for us, maybe it's time to let searchers give it a try.

The economic and financial problems that the construction of the Eurozone generated are not historically unprecedented. Governments and firms often found themselves in too much debt in the years predating the creation of the Euro. And there had been mechanisms for dealing with such situations—not just the political fiat we've seen in the past four years.

A searcher would thus point out that we might want to try local procedures, such as bankruptcy. True, financial panics are not pretty, and have costs for the real economy, but that is not a reason for treating financial institutions as too big to fail, but rather, as Paul Seabright argues, to develop mechanisms that can determine seniority of different claimants without necessarily prompting everyone to go withdraw their cash out of banks simultaneously.

Similarly, it has not been unusual for governments to enter and leave different monetary arrangements at will, especially if it turns out that an unrealistic exchange rate is contributing to a chronic macroeconomic malaise—as it may have in the case of Argentina in the late 1990s. While European politicians, with their planning mentality, have taken orderly departures of individual countries from the Eurozone off the table, there exist a wealth of examples of countries that have successfully dealt with such problems in the past, such as Czechoslovakia (in 1919 and in 1993).

In short, a searcher's approach towards solving current economic problems in the

Eurozone would readily recognize complexity and involve looking for bottom-up, country-specific solutions without necessarily endorsing any specific political vision for Europe from the outset. Yet, that is not the approach by those believe that they have the answer—i.e. *more* and*deeper* integration—regardless of the problem they are trying to address, and regardless of economic reality. We've yet to see the final bill for the ideological blindness of European planners.