Nor should our new vision be narrowed down to a few economic factors. A classical, pre-crisis model that privileged pure efficiency and output can no longer be relied on for designing and evaluating new broader policies, or for measuring a country's overall performance. Rather, a **multi-dimensional welfare function** is needed that can allow for the fact that society may wish to sacrifice short-term economic growth in favour of other well-being priorities, such as healthcare or more leisurely work-life balance.

A classical, pre-crisis model that privileged pure efficiency and output can no longer be relied on for measuring a country's overall performance

With this multi-dimensional framework we would be able to paint a coherent picture of the linkages and identify the different variables that affect imbalances and cause potential market failures. We would then shape the long-run policies and response strategies accordingly.

The OECD has built up half a century of cross-cutting experience scrutinising and advising on the causes of growth. We know, in light of the crisis, that our growth model must now be reviewed and revamped for the challenges ahead. Our new model will be a means to helping us better understand how economic, structural and institutional policy choices might shape global growth prospects in 50 years time. Above all, it will help us devise better policies for better lives.

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See also: "World economy: Crisis over? Chief Economist Pier Carlo Padoan explains", available at www.oecdobserver.org

A pathway to sound economic thinking

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Financial market overhang rather than excessive fiscal spending threatens confidence today. And there are sounds investments which can make society healthier.

Our economic thinking has been revealed to be unsound in recent years. In fact, it has been distorted by the overwhelming power of vested interests in the financial sector. This is now quite evident.

In 2008, we were shown how dangerous and costly any illusions of financial stability were. The false reassurance financial theories provided ironically proved to be a destabilising force. Right now, anyone considering productive investments in the real economy is afraid that the toxic financial system will blow up and take the world down again. Trust in financiers as the arbiters of balance and the nerve centre of our economic system has been shattered.

In light of the calamitous evidence since 2008, we can now see that we will not emerge from this crisis until the architecture of our financial system is thoroughly reformed. It is this overhang rather than excessive fiscal spending that threatens business confidence today. The simple assumption that we can anchor the economic system with certainty in the future is a convenience for mathematical modelling. But it is absurd. It led to the creation of bad maps of financial behaviour, and those maps led to excessive leverage, inadequate regulation, and toxic complex securities. Then, in 2008, our ship rammed into the rocks.

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The old financial paradigm is what led us to mark-to-model complex securities and banks that were too big to fail, in addition to being overly opaque and over-leveraged. It is this combination that led to a situation where banks were bailed out instead of taking losses on bad investments–and then those same banks were able to turn around and demand that entire countries be put through the ringer to make sure the banks get repaid. Once again, the banks use their political power to prevent debt restructuring and taking losses on bad investments, all while using large amounts of the money meant for recapitalisation to pay out record bonuses and stockholder dividends.

> We will not emerge from this crisis until the architecture of our financial system is thoroughly reformed

Our flawed financial regulatory system contributes to bad policy choices in the real economy. The aversion to debt restructuring, in part because of the fear of unleashing a financial contagion in our opaque regulatory system, leads officials to resort to the dead-end policies of austerity. But austerity will not bring us out of this mess. You cannot cut your way to growth and solvency while in a slump. But the traditional Keynesian approaches of just spending money to get the economy back to full employment aren't appropriate either, because in addition to stimulus you are incurring debt that will have to be serviced over the long term. Investment, even during times of demand shortfall, must still be chosen to enhance productivity. Otherwise the long-term debt burden will be unsustainable and crisis will merely be delayed.

But at the margin you can invest in things that more than pay for the incremental debt. In that case you are making a sound investment, making debt more sustainable, and making society healthier. One example of such a possibility in the United States is the significant opportunities for investment in failing infrastructure and education systems that today could be financed at interest rates below 2%. In times of persistent unemployment, a nation can get the benefits of the Keynesian boost to employment, preserve the human capital in the labour force that would otherwise atrophy through persistent idleness, and improve productivity in the long term.

The failure of these old approaches to financial structure and regulation, and dead-end approaches to debt and demand management speak to the need to create a more integrated and relevant economics that places real human beings and real institutions at its centre, not the narrowly defined, misleading, and simplistic abstractions, that are unconsciously embodied in the logic of mechanical finance. These visions of conventional wisdom, pretending to be scientifically valid, ignore the broader costs borne by humanity, and the pain is only revealed when it emerges as rage, violence, social uprising, and other reflections of the malfunction of our political economy.

As Joseph Schumpeter once described, economics at its core is about three things: politics, politics, and politics. The parables of financial theory are themselves a reflection of the blind spots and taboos in modern politics that anthropologists identify when studying tribal cultures. Some assumptions simplify and are helpful and illuminating. Others introduce harmful ideas that are meant to serve concentrated powerful interests.

We need to move beyond blind faith in the presuppositions of the old financial models. It is time to open up and examine those blind spots and taboos that have contributed to this false portrait of financial process, regulatory design and macroeconomic management. The foundations that have been implicitly accepted are ripe for vigorous challenge in light of the damage they have created to society. We need new economic thinking, however unsettling that might be. Only then will economics be able to provide us with realistic and relevant maps of the economy that will help us get an unstable and unproductive financial sector aligned with the needs of society.

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