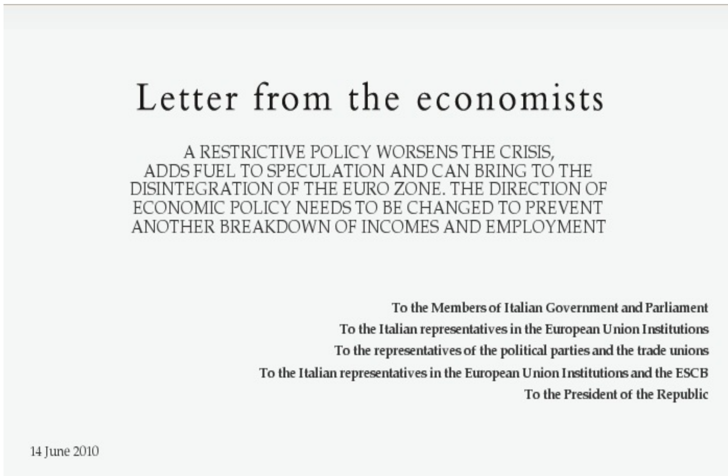
Beyond the “Kindleberger Moment”, Fighting Global Austerity



Letter from the economists

A RESTRICTIVE POLICY WORSENS THE CRISIS, ADDS FUEL TO SPECULATION AND CAN BRING TO THE DISINTEGRATION OF THE EURO ZONE. THE DIRECTION OF ECONOMIC POLICY NEEDS TO BE CHANGED TO PREVENT ANOTHER BREAKDOWN OF INCOMES AND EMPLOYMENT

To the Members of Italian Government and Parliament
To the Italian representatives in the European Union Institutions
To the representatives of the political parties and the trade unions
To the Italian representatives in the European Union Institutions and the ESCB
To the President of the Republic

14 June 2010

social and political notes]

Minsky Moment” entered the popular lexicon when, at the

height of “phase I” of the financial crisis in mid-2008, some financial journalists and even mainstream economists discovered that there actually existed some sensible economic theory that could help us comprehend the financial disaster that was threatening to bring down the world economy. Since that time, we briefly entered the “Keynes Moment” when politicians and economists in the U.S., Europe, Asia and even in the “temples” of neo-liberalism such as the IMF, re-discovered the absolute necessity of expansionary fiscal policy to stem the massive deflationary forces that had the world economy in a death grip. For a brief period, these governments pursued unprecedented “Keynesian” fiscal policies to try to break the downward economic spiral and, to some extent, they temporarily succeeded. But now, the orthodox forces in Europe and the U.S. are trying to bury Keynes once again, and resurrect the liberal –now completely reactionary – policies, theory and lexicon of a bygone age – calling for brutal austerity measures to restore the “confidence” of financial markets, who, they say, will lead the global economic recovery by bringing about lower interest rates, higher investment and greater employment. These politicians and the economists who give them credence now make these pronouncements with a straight face, despite the fact that it was these financial markets and these economic policies which have brought us the greatest global economic calamity since the Great Depression. And, they repeat these mantras despite the fact that there is no empirically defensible economic theory which would predict that in the deflationary economic conditions we now find ourselves, massive global fiscal retrenchment will bring about more economic growth or employment generation. Have they already forgotten that “financial confidence” led primarily to speculative bubbles and fat bonuses for bankers rather than productive and sustainable investment and jobs? And now that serious financial reform regulation is virtually dead in the US and dying a slow death in Europe, do they think that restoring financial confidence in Europe will produce any different effect?

So what “moment” are we now in? I think we have reached the dangerous and treacherous “Kindleberger Moment”. In his important book, *The World In Depression, 1929 -1939* the late economic historian Charles Kindleberger argued that the failure to quickly and forcefully pursue adequate expansionary fiscal policy and reverse the deflationary forces of the global economy led to fatal political centrifugal forces, tearing apart political coalitions and institutions capable of bringing about real solutions to the economic crisis**[1]**. Kindleberger argued that this failure was due not only to lack of understanding of the importance of expansionary fiscal policy, but also to forces of financial speculation and the financial markets more generally, that made expansionary fiscal policies extremely difficult to carry out**[2]**. This failure of understanding and failure of will to press forward with the needed economic policies and to bring under control the forces of reaction (including finance) that were attempting to undermine them, ultimately blocked the ability to end the Great Depression through peaceful means.

We are at a “Kindleberger Moment” in another important and related sense. In his important book, *Manias, Panics and Crashes* , Kindleberger develops Minskian financial themes to show, among other things, that at a time of crisis, governments and central banks throw out the so-called Bagehot rules of “lender of last resort” (‘lend only to solvent institutions, on good collateral and at a penalty rate of interest’) and typically bail-out the masters of finance, doing whatever it takes to get the job done. As Kindelberger aptly puts it, in these situations, in practice, ‘the only rule is that there are no rules’. So, governments and central banks in the U.S. and in Europe have saved the financiers, claiming, of course, that they are saving the citizens. In a cynical marketing ploy, they call a bail-out of European Banks a bail-out of Greece.

These saved and re-empowered banks and their allies in business, politics and the academy have now successfully prevented serious financial reform in the US and are well along their way to delaying and probably ultimately killing serious reform in Europe as well. With the virtual gutting of financial reform efforts, and now the attempted restoration of fiscal retrenchment and austerity, the same powers that brought on the crisis are simply trying to hit the re-start button in the hope that they can back to minting money for themselves at the expense of virtually everyone else as they have been doing in recent decades.

But, given the severity of the crisis, as Kindleberger argued, hitting the re-start button will not work. The crisis is deepening, and instituting more austerity on the one hand and financial bailouts on the other to restore the confidence of finance is not a real solution. It will just hasten the forces of political and economic disintegration as we are witnessing in the U.S. and many European countries.

So what should be done? The antidote to this “Kindleberger Moment” is to unify political and intellectual forces that are pushing for real solutions: for Keynesian fiscal reflation and serious financial regulation , for more democratic control over central bank policy, including over the increasingly powerful ECB, and for an over-throw of the now discredited mainstream economic doctrines that legitimize and act as cheerleaders for the misguided policies that are now once again becoming dominant in Europe and, increasingly, in the U.S.

It is in this context that the Letter signed by more than 200 Italian Economists is so important. It creates a strong voice against the calamitous policies and intellectual underpinnings for austerity and neo-liberalism that are once again becoming so strong. Like increasingly politically engaged economists in other parts of Europe, the U.K., the U.S. and elsewhere, these Italian Economists, by writing and promoting this letter, are insisting that skilled, respected and dedicated economists will no longer sit back as a group and allow neo-liberal economics, to masquerade as reality- based economics, after it has been so thoroughly discredited by the events of the last several years. As these Italian Economists have done, more economists and other intellectuals must put aside minor intellectual differences and petty squabbles, come together to face the disastrous economic policies endorsed by neo-liberal economsts and opportunistic policitians, and join forces to oppose these failed ideas and policies.

After all, that is what the financiers have done. In the battle for financial reform in the US, for example small and large banks, financial institutions and non-financial institutions worked out their differences to stand united against serious financial regulation. And they have mostly won suggesting that the capitalist class is increasingly united under finance. As the publication of the Italian Economists’ letter makes clear, we need to be at least as forceful and united in fighting against austerity, defending social protections, and promoting sustainable, employment creating macroeconomic policy.

Only then will we get out of the disastrous trap of this Kindleberger Moment.

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[1] The World in Depression, 1929 – 1939. Berekley: University of California Press, 1973. [2] Kindleberger’s book is most famous for his claim that the depression was exacerbated by the failure of the global leadership. He argued that the UK was no longer capable of exerting leadership and the US was unwilling to do so. But equally important is the process by which this failure manifested itself: in the failure to conduct sufficient fiscal expansion and fight the forces of finance and speculation that ultimately led to political disintegration to the point that these policies were no longer feasible.