We stand here in the midst of what consensus regards as the worst episode of financial distress since the Great Depression of the 1930s itself, and in the midst of what current forecasts project will be either the second-worst or the worst global economic downturn since World War II. In the United States the fall in the civilian employment-to-population ratio in this recession is already greater than in three of the other eight post-World War II economic recessions, and another quarter of economic performance as bad as the fourth quarter of 2008 will make this recession the worst as measured by the percentage of the U.S. adult working-age population rendered jobless of the post-World War II era. This is a bad time to be entering the labor market or losing your job in the United States. And this
is a bad time to be entering the labor market or losing your job outside the United States as well: as demand in the United States falls, its role as the global economy’s importer of last resort and safe haven for finance means that its recessions carry the global economy as a whole down with it.

This is also a bad time to be a macroeconomic theorist. Take any intermediate macroeconomics textbook—even mine and Marty Olney’s\(^1\)—try to use it to figure out what is happening to the world economy right now, and you come up dry. Take any introductory economics principles text: it is of no greater help. Perform the difficult and

arcane task of reading the technical papers that we make graduate students read in their first and second years of macroeconomics courses—you gain little if anything more of use. The economic theories we professional economists typically teach do not do their job of helping us to understand the world in which we are now living.

In part this is because the current global recession is a different kind of recession than the ones we have grown used to since World War II and that are in the textbooks. In the textbooks, since World War II, global recessions have been caused or at least courted by the actions of North Atlantic central banks. The Federal Reserve, the Bank of England, in former days the Bundesbank but now the European Central Bank decide that past monetary policy has been too lax and too stimulative or that present supply shocks carrying the prices of natural resources upward are too large, that there is danger of a very damaging global inflationary spiral, and that as a result they need to shift their policies from putting first priority on maintaining near-full employment to maintaining or recovering their credibility as guardians of effective price stability.

When the central banks decide to make their price-stability mission their highest priority, they sell safe Treasury bonds for cash. Thus they shrink the amount of cash in the economy and increasing the amount of safe bonds that pay you cash not now but later—increasing the duration of the assets that the private sector must hold and decreasing the amount of assets that those impatient to spend or cautious can hold and feel safe. Thus the price of duration—the interest rate on safe assets that pay cash money not now but in the future—goes up, and as the price of duration goes up the value of all assets that pay their money out not now but in the future does down. As asset prices fall, businesses that were thinking of expanding find that they can no longer raise the cash for expansion on such profitable terms. They cut back on their expansion plans—or accelerate their plans to contract. Demand falls, unemployment rises, wages and resource prices stop rising or fall—and the threat of an inflationary spiral falls away. The central banks have, in the words of William McChesney Martin, chair of America’s Federal Reserve Board...
from 1951 to 1970, “take[n] away the [alcoholic] punchbowl just as the party gets going.”

According to my Berkeley economics professor colleagues David Romer and Christina Romer, this type of recession-courting or recession-triggering shift in priorities on the part of the Federal Reserve Open Market Committee in the United States and its counterparts in other North Atlantic central banks is the cause of six of the nine post-World War II recessions—the six that are the downward-pointing red arrows in the figure above. These are the kind of recession that is taught in the textbooks. But the other three recessions—the orange arrows are different. Neither the recession of 1960 nor that of 2001-2003 nor that of today had its origin in a central bank decision that it was time to change priorities and fight inflation by making interest rates higher and thus investment less profitable.

A few rough numbers for where we are. Eighteen months ago we had roughly US$80 trillion of global financial assets. Today we have US$60 trillion. We can summarize the determinants of financial asset values as the result of five forces: par values—that is, book or construction values—and then four discounts: default, duration, risk, and information discounts:

1. Your counterparty might default—might not pay.
2. Money in the future, even certain money of insured purchasing power in the future, is not worth cash in hand today.
3. Perhaps when you get your money you will be in a state of the world in which your marginal utility of wealth is low (or you will lose your money in a state of the world in which your marginal utility of wealth is high).

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4. Perhaps you lack information—perhaps your counterparty knows something important about the asset that you do not.

Of the US$20 trillion decline in global financial asset values, only a small part—US$1 to $2 trillion—comes from increasing default discounts on the driving factor behind the crisis: losses on mortgages and mortgage-backed securities made on homes “overbuilt” due to irrational exuberance in global housing markets. There are perhaps another US$3 trillion in other defaults springing from the fact that the global economy is in recession. But these have been offset by a US$3 trillion reduction in duration discounts as central banks have flooded the globe with liquidity and flattened the world’s intertemporal price structure.

The net effect? Increases in risk and information discounts account for between US$18 and US$19 trillion of net global financial asset losses—for between 90% and 95% of the reduction in values. The first-order factor is not overinvestment in housing or default on mortgage-backed securities but a collapse in the risk tolerance of global financial markets, which has created a situation in which businesses that would normally seek to expand find that they cannot get financing on terms that make expansion profitable?

Where, then, did the current global recession—did this collapse in risk tolerance—come from?

Since economic theory is of little use, let us instead turn to economic history. Let us go back in time 165 years and let us go to the other end of Eurasia, to the Palace of Westminster, where the British House of Commons under the leadership of First Lord of the Treasury Sir Robert Peel was debating the renewal of the charter of the Bank of England.4

The Bank of England was the original “too big to fail” entity. It was the bank for the British Empire. And the British Empire was the world’s hyperpower for the two centuries between the War of the Spanish Succession and World War I. Rather than see the Bank of England fail or even see its credit doubted, the British Empire would stand behind its liabilities with its entire taxing power—thus except for the crisis of Napoleon at the start of the nineteenth century, the Bank of England’s notes were always as good as and in many ways better than gold. In the eighteenth century the Bank of England began acting hesitantly and cautiously as a “lender of last resort” when asset prices collapsed. It took over the liabilities of the South Sea Company—albeit at a steep discount—in order to avoid the mass bankruptcy of many members of Parliament and at the same time to eliminate a potential competitor institution. It pushed off responsibility for avoiding the mass bankruptcy of Liverpool merchants onto the Chancellor of the Exchequer in 1793, when the outbreak of the wars of the French Revolution sent the price of cotton on the Liverpool docks plunging and when the Chancellor issued Exchequer bills taking the cotton bales as security. Come 1825, however, the Chancellor of the Exchequer Lord Liverpool threatened to resign if the Prime Minister made him support the financial market—for Lord Liverpool had warned the speculators that they were going too far, and had drawn a line in the sand with his statements that if they got into trouble with canal shares and commercial paper the Exchequer would not rescue them. But Lord Liverpool was also certain that something needed to intervene to keep financial asset prices from collapsing—and pressured the Bank of England to do so.

By 1844, therefore, it had become the settled custom that the Bank of England would intervene in financial markets whenever asset prices plunged “too far”: that it would serve as the lender of last resort to keep universal bankruptcy away. It would print up and issue extra Bank of England notes on the security of assets that had lost their value or that would lose their value were the Bank of England to fail to support their price. The problem was that the Bank of England’s charter gave it no power to do so—no power to print up extra notes in a crisis. And in 1844
the House of Commons debated whether the recharter of the Bank of England should give it such a power.

Sir Robert Peel decided in the end not to—that if the speculators of London knew that the Bank of England would put a floor under financial asset prices in a crisis than fear would not restrain their greed and thus, protected by what we now call a Greenspan or a Bernanke put, episodes of speculative excess would become more common and more disruptive. But, Peel also wrote on June 4, 1844, the fact that he had made it illegal for the Bank of England to act as a lender of last resort did not mean that it should
not do so. “My confidence is unshaken,” he wrote, “that we have taken all
the precautions which legislation can prudently take against a recurrence
of a pecuniary crisis. It may occur in spite of our precautions; and if it
does and if it be necessary to assume a grave responsibility, I dare say men
will be found willing to assume such a responsibility.”5 And, indeed, three
years later the Chancellor of the Exchequer wrote a “suspension letter” to
the Bank of England, assuring it that the government of the day would not
prosecute if it exceeded the limits of its charter, printed up extra
banknotes, and issued them to the market taking as security assets that had
greatly lost value—or that would greatly lose value were the Bank of
England to step back. And central banking as we know it today was
underway. Charles Kindleberger remarks that modern central banking in
this “lender of last resort role is riddled with... ambiguity, verging on
duplicity. One must promise not to rescue banks and merchant houses that
get into trouble, in order to force them to take responsibility for their
behavior, and then rescue them when, and if, they do get into trouble for
otherwise trouble might spread...”6

But why is this lender of last resort function necessary at all? Why do
financial asset prices suddenly collapse? Cast yourself another 250 years
back to the docks of Venice where Antonio, the merchant, is loading the
goods for a venture onto one of his ships: the spices of the Indies, the silks
of Cathay, and the intoxicants of Araby. But in order to carry out his
venture he needs investors: Shylock, say. Suppose that the morning comes
to set sail and Shylock balks—says that he needs his money now in order
to pay for the wedding of his daughter or that the venture is too risky and
he wants to keep his wealth close at hand. Suppose also that Shylock’s
change of mind is a general change of mind—that no replacement
financier can be found. What happens? With a sigh Antonio unloads his
ship and carries his spices, silks, and intoxicants off to the market where
he sells to the consumers. He then returns his money to Shylock. No big
problem. A sudden fall in the willingness of investors to hold assets that

5 Robert Peel (1847), “Letter on Suspension,” British Parliamentary
are (a) of long duration, or (b) subject to default, or (c) risky, or (d) of uncertain value because they do not know exactly what they are is met by a transformation of a chunk of the mercantile and commercial capital stock of the economy back into consumption goods immediately exchangeable for ready money. The economy as a whole deleverages—but asset prices are not much affected.
Now flash-forward to 1825 or 1844 or today. The capital stock of our economy no longer consists of valued consumption goods—spices, silks, intoxicants—for which there is a ready consumer market for they are directly useful. The capital stock of our economy consists of the
semiconductor fabs of Applied Materials, the patents of Merck, the roadbed of CSX, and a host of other things that are very valuable in their context as part of the social division of labor but are not at all the kind of things that command ready money at short notice in the consumer market.

What happens when everybody—or a small but coordinated subset of everybodies—decides that they want liquidity (their money now rather than in the five to ten years it will take enterprises to pay dividends) or safety (the world is risky enough, thank you, and they don’t care about the upside as long as they are protected on the downside)? In normal times when one investor wants more liquidity or safety another will be willing to take on duration and risk, and they will simply swap portfolios at current market prices. But in abnormal times they cannot: the semiconductor fabs of Applied Materials are long-run, durable, risky assets that cannot be liquidated at any fraction of their value as part of a going concern. And so when the everybodies all decide that they want liquidity and safety—well, the private economic system cannot magically liquidate the fixed capital stock of the economy at a reasonable price. Finance wants to deleverage. But the real capital stock that backs financial assets cannot do so.

This is the key to what Paul Krugman calls “depression economics.” This is why the industrial business cycle emerged as a disease of economies with the industrial revolution that saw the social capital stock transformed from consumption goods in process or in transport to long-lived fixed industrial and knowledge capital.

But why should “everybody” suddenly want to hold their wealth in a different, less risky, less leveraged portfolio? There appear to be four possibilities. First, bad luck or excessive risk taking may have led to steep losses on the part of financial professionals who cannot then bear the risk they are accustomed to bearing without raising additional capital—but it is just at those moments at which financial professionals have incurred large losses when they are least likely to be able to raise any capital at all from

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the private market. Second, the world may have suddenly become a more risky and a less secure place—and thus people find themselves bearing a lot more risk than they had counted on. Third, investors may simply have become an irrational and panicked herd. Fourth, investors may in the past have been excessively optimistic—may have been subject to what Alan Greenspan liked to call “irrational exuberance.” A long period of irrational exuberance may have led to a great deal of extra investment in fixed and organizational capital and so added to the total amount of risk to be carried by the economy. And this added risk may be unsustainable at reasonable prices for risky assets once the fervor of irrational exuberance fades away.

Whichever or whatever combination of these four mechanisms is at work, why should the rest of us care? It is clear why we should care about a collapse of financial asset prices if we are retirees who must sell off our portfolios at a good price right now in order to maintain our standard of living. It is clear why we should care if we are princes of Wall Street or Canary Wharf whose power, wealth, and profession depend on avoiding bankruptcy. But should the rest of us care? The answer is yes because there is a profound asymmetry in the economy. Times of falling asset prices (relative to consumer-good prices) are followed by times of high unemployment and low incomes, as low asset prices mean that businesses that ought to be expanding cannot obtain financing on terms that make expansion profitable, as the failure of businesses to expand throws people out of work in capital goods-producing industries, and as rising unemployment and falling incomes from capital goods industries produces more falling incomes and rising unemployment in consumer goods industries. Workers are thrown out of capital goods-producing industries and have no alternative opportunities for employment—and then their cutback of their own spending magnifies the problem.

By contrast, times of falling consumer-good prices (relative to asset prices) are not followed by periods of high unemployment and low

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http://tinyurl.com/dl20090105c.
incomes. Workers are not pushed out of consumer goods production into unemployment, but are pulled out of consumer goods production into capital-producing industries. This asymmetry means that all of us care much more about falling than about rising asset prices—and creates a strong case for global governments and central banks to do something to keep asset prices from collapsing and unemployment from rising. That was what was settled by First Lord of the Treasury Sir Robert Peel back in 1844: that this asymmetry means that the prices of financial assets are too important for the health of the economy and the welfare of the population for them to be left to the free play of market forces when the free play of market forces says that asset prices should collapse.

And since the late summer of 2007 the assembled central banks and governments of the globe have been attempting to keep the global economy near full employment and avoid the collapse of asset prices without forcing the globe’s taxpayers to pay for the losses and enlarge the fortunes of financiers who ought to have known more and better about the risks that they were bearing and assuming in the mid-2000s. The task is, to repeat what Charlie Kindleberger said, one that is “riddled with... ambiguity, verging on duplicity. One must promise not to rescue banks and merchant houses that get into trouble, in order to force them to take responsibility for their behavior, and then rescue them when, and if, they do get into trouble for otherwise trouble might spread...” The task is to undertake the minimal intervention that will keep the globe near full employment—for a larger than necessary intervention enriches those who ought not to be enriched, assures those who will participate in the next wave of speculation that they too will be made whole by global governments, and creates the possibility of another inflationary episode that will in turn have to be curbed by another global recession as painful as 1982.

But in the end the financial rescues and the market support ought—or must—be undertaken, for the worries about “moral hazard” and “unjust enrichment” are only a very small part of what is now going on. Think of it this way: two years ago we lived in a world in which the wealth of global owners of capital was some $80 trillion—that was the market value
of all of their property rights to dividends and contract rights to interest, rent, royalties, options, and bonuses. Now over time the wealth of global capital fluctuates, and it fluctuates for five reasons:

1. **Savings and Investment:** Savings that are transformed to the investment add to the productive physical—and organizational, and technological, and intellectual—capital stock of the world. This is the first and in the long run the most important source of fluctuations—in this case, growth—in global capital wealth.

2. **News:** Good and bad news about resource constraints, technological opportunities, and political arrangements raise or lower expectations of the cash that is going to flow to those with property and contract rights to the fruits of capital in the future. Such news drives changes in expectations that are a second source of fluctuations in global capital wealth.

3. **Liquidity Discount:** The cash flowing to capital arrives in the present rather than the future, and people prefer—to varying degrees at different times—the bird in the hand to the one in the bush that will arrive in hand next year. Fluctuations in this liquidity discount are a third source of fluctuations in global capital wealth.

4. **Default Discount:** Not all the deeds and contracts will turn out to be worth what they promise or indeed even the paper that they are written on. Fluctuations in the degree to which future payments will fall short of present commitments are yet a fourth source of fluctuations in global capital wealth.

5. **Risk Discount:** Even holding constant the expected value and the date at which the cash will arrive, people prefer certainty to uncertainty. A risky cash flow with both upside and downside is worth less than a certain one by an amount that depends on global risk tolerance. Fluctuations in global risk tolerance are the fifth and final source of fluctuations in global capital wealth.
In the past two years the wealth that is the global capital stock has fallen in value from $80 trillion to $60 trillion. Savings has not fallen through the floor. We have had no little or no bad news about resource constraints, technological opportunities, or political arrangements. Thus (1) and (2) have not been operating. The action has all been in (3), (4), and (5).

As far as (3) is concerned, the recognition that a lot of people are not going to pay their mortgages and thus that a lot of holders of CDOs, MBSs, and counterparties, creditors, and shareholders of financial institutions with mortgage-related assets has increased the default discount by $2 trillion. And the fact that the financial crisis has brought on a recession has further increased the default discount—bond coupons that won’t be paid and stock dividends that won’t live up to firm promises—by a further $4 trillion. So we have a $6 trillion increase in the magnitude of (3) the default discount. The problem is that we have a $20 trillion decline in market values.

The problem is made bigger by the fact that for (4), the Federal Reserve, the European Central Bank, and the Bank of England have flooded the market with massive amounts of high-quality liquid claims on governments’ treasuries, and so have reduced the liquidity discount—not increased it—by an amount that I estimate to be roughly $3 trillion. Thus (3) and (4) together can only account for a $3 trillion decrease in market value. The rest of that decline in the value of global capital—all $17 trillion of it—thus comes by arithmetic from (5): a rise in the risk discount. There has been an increase in the perceived riskiness (not a fall in the expected value, an increase in the spread holding the expected value constant) of income from capital. And there has been a massive crash in the risk tolerance of the globe’s investors.

Thus we have an impulse—a US$1 to US$2 trillion increase in the default discount from the problems in the mortgage market—but the thing deserving attention is the extraordinary financial accelerator that amplified less than US$2 trillion in actual on-the-ground losses in terms of mortgage payments that will not be made into an extra US$18 to US$19 trillion of
lost value—all because global investors now want to hold less risky and shorter duration portfolios than they wanted two years ago.

And in order to keep the global economy near full employment, central banks and governments have to take steps to reduce the magnitude of this collapse in financial wealth and to try to wall off it from having major consequences for global production and employment. And so they have run through a more-or-less standard series of steps, all of them derived from the Bank of England’s practice in the first half of the nineteenth century or printing up extra banknotes and using them to support the financial market by buying or lending on other, riskier, longer duration assets. More or less in order, these steps have been:

1. Reassuring investors that the risks are not that great—by announcing, standing ready to, and then lending every financial institution that feels that it needs a larger short-term cash cushion the cash it needs to feel secure.

2. Pushing up financial asset prices by making longer-term safe bonds scarce and short-term immediate cash abundant—and so by reducing the price of duration boosting asset prices all along the line.

3. Reducing the amount of risk in the marketplace by guaranteeing and, when necessary, nationalizing organizations thought to have taken on excessive risk and to be on or over the verge of default.

4. Recapitalizing the financial system by having the government take and fund minority ownership shares in financial institutions.

All of these have been tried. And the fact that all of these have been tried is quite worrisome—usually a financial crisis is successfully handled with (1) and (2). More worrisome is the fact that it is now clear that in doing (1) through (4) the world’s governments have not done enough to keep the global economy near full employment—and so governments and central banks are now mulling over (5), (6), and (7) as their next steps:
5. Massive purchases of risky assets by governments in order to reduce the quantity of risky assets that the private sector must hold, and so bring the amount of risk the private sector must bear back into proportion with the (diminished) risk tolerance of the global private financial system.

6. Nationalization—as in Sweden in 1992—of large chunks of the global financial system (to be followed by reprivatization at some point in the future).

7. Major, major government spending programs—for if the private sector is too shell-shocked to finance investment for the next several years, the government can and should step in to do so.

Will these steps (5) through (7), or rather whatever combination of them global governments and central banks agree on, work? Will the world economy avoid a full-fledged depression? I believe that the answer is “almost surely.” Surely because we do not face any insurmountable technocratic problems—we know how to conduct monetary policy to reduce safe interest rates and to banish any fear of large-scale deflation; we know how to nationalize and then reprivatize banking systems; we know how to use temporary albeit large-scale government spending programs to put people to work and boost demand. “Almost” because we do face problems—but they are not insurmountable technocratic problems of policy design. Instead, they are political and intellectual problems of goodwill and of comprehension of our economic situation instead.

The political problems come from the government of Germany—unwilling to tolerate any increase in the total governmental debt of the European Union, even an increase that is highly beneficial to the economy as a whole—and the Republican Party in the United States—unwilling to do anything other than to try to block the Obama-Biden administration in whatever it attempts. In Germany, the historical memory of the budget deficits of the early 1920s and their end in hyperinflation is still remarkably strong. In the United States, the
Republicans remember that blocking the initiatives of the last Democratic President, Clinton, in 1993 and 1994 led to a drumbeat of press stories claiming that Clinton’s presidency was a failure in 1994—and to massive Republican election victories at the end of 1994. But these political problems would not be serious were it not for intellectual and ideological backing. To block the macroeconomic stabilization policies of governments as the world economy edges closer to depression is to accept blame for whatever increases in unemployment do occur.

And here—with the intellectual and ideological opposition to macroeconomic stabilization policy—we reach something that is puzzling, disturbing, and fascinating. The principle that there are some prices that are too important to be left to the free play of market forces was, we all that, settled in 1844. The only serious attempt to back away from central banking was undertaken in the 1930s, when Britain’s economy had become too small for the Bank of England to be the central bank for Europe and when the administration of U.S. President Herbert Hoover was bespelled by his Treasury Secretary, Andrew Mellon, who had a moral objection to market intervention and thought that “even a panic would be not altogether a bad thing.” Friedrich Hayek and Joseph Schumpeter led those “Austrian” economists who tried to build theories in which government attempts to cure recession caused more harm than good. Behind Hoover and Hayek stands the figure of Karl Marx, who critiqued the coming of modern central banking at its origin in the 1840s and thus stands at the head of the Marx-Hoover-Hayek axis.

The policies recommended did not turn out well. We can dispute what should have been done in the Great Depression, but hands-off was definitely the wrong policy. This lesson of the Great Depression was reinforced by the experience of Japan in the 1990s, where governmental

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hesitancy in taking action in the hope that the market system would soon cure its own diseases was not rewarded.

**The Marx-Hoover-Hayek Axis**

The critique back in 1844 at the founding of central banking was that it was fruitless to seek through financial manipulation to cure the disease because it was not a financial malady in the first place. As Marx wrote, financial crises were: “the great storms of the world market in which the conflict of all the elements of the capitalist process of production discharge themselves” and yet for Peel and his allies the “origin and remedy were sought in the most superficial and abstract sphere of this process, the sphere of money-circulation.” That, Marx thought, could not have been right—and Peel was a fraud: “Peel himself has been apotheosized in the most exaggerated fashion... his speeches consist of a massive accumulation of commonplaces, skillfully interspersed with a large amount of statistical data…”

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10 Karl Marx (1894), *Capital* vol. 3 http://tinyurl.com/dl20090105f.
The critique in the 1930s from Herbert Hoover and Friedrich Hayek was once again that the malady was not a financial one. The fundamental problem was overinvestment. Something—irrational exuberance or fractional reserve banking or loose monetary policy—had pushed the market’s tolerance for risk above “sustainable” levels, the economy had responded by “overinvesting” in capital, and no cure was possible that did not involve a recognition that capital had been overinvested and wasted and that the economy’s capital stock needed to shrink. It was Herbert Hoover’s Treasury Secretary Andrew Mellon who argued most vociferously that government must keep its hands off and let the slump liquidate itself. In Hoover’s words:
“Liquidate labor, liquidate stocks, liquidate the farmers, liquidate real estate”… Even a panic was not altogether a bad thing. [Mellon] said: “It will purge the rottenness out of the system. High costs of living and high living will come down. People will work harder, live a more moral life. Values will be adjusted, and enterprising people will pick up the wrecks from less competent people”…

You would think that a principle of economic governance that has been established for 164 years—a principle the transgression of which led to uniformly bad outcomes—would command consensus allegiance today. And yet it does not. Martin Wolf11 writes of “contemporary liquidationists” [of the right who] insist that a [global economic] collapse would lead to rebirth of a purified economy… [and] leftwing opponents [who] argue that the era of markets is over. And even I wish to see the punishment of financial alchemists who claimed that ever more debt turns economic lead into gold…”

The Marx-Hoover-Hayek axis thus has both a pedigree and a present. We can read University of Chicago professor John Cochrane12 arguing that: “We should have a recession…. People who spend their lives pounding nails in Nevada need something else to do…” We can read Washington University professor Larry White blaming the government for triggering overinvestment: “We can group most of the unfortunate policies under two main headings: (1) Federal Reserve credit expansion that provided the means for unsustainable mortgage financing, and (2) mandates and subsidies to write riskier mortgages. The enumeration of regrettable policies here is by no means exhaustive.”13

The best response I have found to this comes from Martin Wolf\textsuperscript{14} of the\textit{ Financial Times}, who wrote last month of how:

\begin{quote}
[O]ne should not treat the economy as a morality tale…. Austrians… argued that a purging of… excesses… was required. Socialists argued that socialism needed to replace failed capitalism… views… grounded in alternative secular religions…. Keynes’s genius – a very English one – was to insist we should approach an economic system not as a morality play but as a technical challenge…. This same moralistic debate is with us, once again. Contemporary “liquidationists” insist that a collapse would lead to rebirth of a purified economy. Their leftwing opponents argue that the era of markets is over. And even I wish to see the punishment of financial alchemists…. Keynes would have insisted that such approaches are foolish. Markets are neither infallible nor dispensable. They are indeed the underpinnings of a productive economy and individual freedom. But they can also go seriously awry and so must be managed with care…”
\end{quote}

I think Martin Wolf is right. From my vantage point, at least, the causes of potential cures of our current financial malady are clear, And the consequences of failing to take the appropriate action are also clear. But there is no reason for us as a globe to fail—if we do fail, it will only be because we have ourselves forgotten things about the limits of the market system that the rulers of the British empire understood very well 164 years ago. Economic policy knowledge will have to have gone that far backwards.

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\textsuperscript{14} Martin Wolf (2008), “Keynes Offers Us the Best Way to Think About the Financial Crisis,”\textit{ Financial Times} (December 23)
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