In the company of the sane

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I am well aware that economics is not a subject on which there will ever be agreement. And I am more than happy to debate the issues involved. And like many, I find the commentary of the Right on such issues, especially on blogs, to be straightforwardly offensive. I have no doubt this is deliberate. The belief of many from the Right's fringes is that it is best to close down debate by intimidation.

And yet the sane persist in expressing their view — and that heavens for that. The Observer offered an excellent mix of that sane approach to economics today. Take this from Roger Bootle:

A year ago we came perilously close to utter catastrophe, ..but the neoliberal, free-market people are already on the warpath. They remind me of some mythical creature — cut off one head and it sprouts more.

Who is he referring to?:

the "efficient market" gurus. Their spiritual and academic home is the "Chicago School" — the University of Chicago — and their laissez-faire preaching of recent decades led policymakers into the dangerous liberalisation of financial markets that resulted, via vast profits and bonuses, in near-Armageddon.

I suspect that almost all the hostility on this blog comes from those subscribing to their beliefs (beliefs — note): beliefs that have nearly ruined us.

And might still. Note William Keegan:

The.. modern Conservatives give every impression of wanting to begin their economic leeching process as soon as they can, irrespective of the state of the economy. This general approach is certainly redolent of the policy mistakes of the 1930s. Luckily, Gordon Brown, for all the political misjudgments he is widely considered to have made, got the big one right.

Osborne is wild in his repeated assertions that "the country has run out of money". This *is not what the chief executive of the Government's Debt Management Office, Robert Stheeman, tells us. He recently said: "I would say that coming from a relatively low base of the stock of debt, certainly compared to other countries, gives the UK a slight advantage [in financing the deficit]".*

That’s one thing Osborne has wrong. But Keegan’s analysis of another is new, and astute:

And now for an aspect of Osborne's policies which I find especially bizarre, but which has received little comment. Much has been made of the proposed freeze on public sector wages, usually in connection with the supposed need to find "savings", and sometimes in connection with a distorted view that public sector wages generally are much higher than they really are.

But the very idea of a wage freeze at a time like this seems to have gone almost unquestioned. Yet the fact is that the raison d'?â„¢tre for incomes policies and wage freezes is as a weapon in the battle to control inflation. The Conservatives under Edward Heath resorted to incomes policies in the early 1970s, and much of the subsequent Labour government's time in the mid to late 1970s was taken up with the arduous business of administering an incomes policy.

A wage freeze in a recession is calculated to reduce real incomes and act as a brake on any economic recovery, possibly throwing the economy into reverse gear again at just the time when people are talking about "stabilisation" and possible recovery. Where is the inflation that a wage freeze is designed to combat?

I think this something Darling, Cable and Osborne alike should note.

But is that inflation likely? Back to Bootle:

He is not too concerned by warnings that inflation is about to take off because of quantitative easing. He thinks that deflation, which has dogged Japan for nearly 20 years since its property bubble burst, is a bigger worry: "In recessions, wage growth always gets a big jolt downwards and there is all this talk of wage freezes in the public sector. There is also lots of spare capacity in the world economy, so it is difficult to see where this inflation is going to come from."

Quote so.

Both men talk about banking, of course, but I’ll move to Will Hutton for that, quoting Willem Buiter:

A year ago, most commentators were writing the shadow banking system's obituary. The importance of the bonus comeback is that it demonstrates shadow banking is roaring back to life, complete with all its risks. What has been created, as LSE's Professor Willem Buiter says, is nothing less than communism for the rich. Bankers are making untold riches that are collectively guaranteed. Goldman Sachs now knows what it could only guess at before — it is too big and important to be allowed to fail.

Don’t believe that of Goldman Sachs? Try this, again from Hutton:

The all-conquering Goldman Sachs had to turn itself into a bank in order to qualify for unlimited lines of liquidity from the Fed. It received $13bn from the US government to compensate it for the defunct credit default swaps it had bought from the bust insurer AIG. On top, it has issued $28bn of cheap bonds through the Temporary Liquidity Guarantee Scheme. Without government life-support, it would have gone the same way as its peers, Lehman and Bear Sterns.

But the efficient market theorists have it that bankers were right all along, of course.

So what to conclude? Bootle says this?

Countries should now endeavour, he argues, to rein in the financial sector, recognising that leaving the markets to themselves is a recipe for disaster.

His new book calls modern academic economics a "disaster and a disgrace". Echoing the Queen's question of why so few saw the crisis coming, he says: "They were not even looking in the right direction."

You are not going to be surprised to find I agree. And yet still the apologists (or are they worse than that?) churn out neoliberal economics as if a) it was right and b) there is no alternative.

That was, of course, Thatcher’s mantra.And maybe the last thought on this goes to Andrew Rawnsley who suggests:

If David Cameron wins in the spring, as most assume he will, is he destined to be in Number 10 for two to three terms like a Thatcher or a Blair? That is obviously what the Tory leader hopes for. Yet there is nothing pre-ordained about recent history repeating itself. A reversion to the earlier pattern would see David Cameron become a one-election wonder like a Heath or a Macmillan.

The question is equally important to his opponents. Is Labour fated to be shut out of power for a decade or more? Some of its gloomy luminaries seem to think so. Yet a return to pendulum politics could see Labour back in serious contention for power after just four years out of it.

His reason for saying this?:

The next decade is shaping up to be a much more testing economic framework for government. It may be more redolent of the Sixties and Seventies. Serious economists fear that the tentative signs of recovery are a false dawn before a W-shaped, *double-dip recession. It is possible that the Conservatives will arrive in power with the economy apparently recovering only for it to tip back into recession soon afterwards. Their unpopularity in those circumstances could be epic, especially if they take measures which are blamed for choking off economic revival.*

I too have suggested this. Actually, I'm still not sure the election is lost to the Left (or what passes for it) as yet — the more Osborne talks the more obvious it will be that his main priority is to redistribute the declining pool of wealth of all sorts within the economy he wants to create to his chums, but in case the message is not obvious before the next election I think it will be very soon afterwards — and Cameron's legacy will look horribly like that of Heath — a Tory leader whose great achievement was to serve one, short, term before being replaced.

In that case the debate on economics now is if the greatest importance — because Labour has to show it really did do great things to save us from melt down before the Tories do the best to achieve it. In that way the prospects for sane thinking are very real — and the presence of a body of consistent Keynesian thought can only assist that process.