This Time *IS* Different:
History and America's Great Recession[1]

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In recent years there has been a repeated temptation on both sides of the Atlantic to figure the historical trajectories of the US and Europe as fundamentally divergent. In 2003 Habermas and Derrida constructed a prototypical narrative of European difference to justify their opposition to the Iraq war.[2] In America's defense Robert Kagan drew his sketch portrait of Europe as the land that reality forgot.[3] The current economic and financial crisis is a salutary reminder of how closely interconnected the two continents actually are, in hard times as well as good. Our current crisis is nothing, if not an Atlantic crisis. No other part of the world economy has been affected as badly as Europe and America. Neither side can claim innocence in the origins of the debacle. But though its origins were interrelated, as it has developed, distinct paths have again emerged and distinct narratives of the crisis. For the Europeans the on-going Eurozone crisis throws into question precisely the narrative that Habermas and Derrida invoked – the project of European integration, the welfare state, violent memories of World War II, the more recent legacies of the Cold War and Southern Europe's struggle for democracy since the 1970s. The Europe of 2003 is at stake, hence the vigor of Habermas's recent interventions and his striking effort to craft a compelling narrative of Europe as the core of a global cosmopolitanism.[4] Americans on the other side are once more easily frustrated by Europe's

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1 This paper emerged from a panel organized by the History Workshop Journal in London in the spring of 2009. Subsequent versions were delivered at the Heidelberg Center for American Studies in 2011 and 2012 and at the 2012 Berliner Colloquium fuer Zeitgeschichte. Thanks are due to the participants in all those events. For detailed comments on the current draft I would particularly like to thank Martin Bauer, Stefan Eich, Ted Fertik and Jeremy Kessler.

2 Juergen Habermas and Jacques Derrida, "January 15, or What Binds Europeans Together", Constellations 10, 3, 2003, 291-297.

3 Robert Kagan, Of Paradise and Power: America and Europe and the New World Order (2004)

4 Juergen Habermas, The crisis of the European Union: A response (2012)

fumbling search for a resolution to the crisis. One set of voices, led by market analysts and the bond vigilantes cannot wait for the Eurozone simply to be broken up. On the other hand more Europhilic voices urge a leap towards true federalism. That too has a historic reference point. It has become fashionable to compare the situation of the Eurozone today to that of the United States in the 1790s.[5] To the American political imagination such a leap into the future by way of an eighteenth-century political analogy seems far less obscure than it may seem in Germany, let alone Iceland or the Irish republic. But this begs the question. Where is America's own experience of the crisis to be located in history?

What cannot but strike Europeans is that the greatest crisis of capitalism since the 1930s is perceived in the US fundamentally as a national crisis. Americans do not, on the whole, imagine anyone listening in from the outside. On the other hand, perhaps because the national freedom of action is not in question, virtually any experience might in some sense be relevant. In a way that is not true for Iceland, or Ireland or even Germany all options are on the table. The US provides an arena, which is simultaneously dramatic in its scale - no longer the largest economy in the world, but nevertheless huge - far more unified than the Eurozone and to a striking degree self-referential. Here is a world unto itself. At least in its self-conception, still truly a national economy. So in the American debates, commentators provide not only different answers to the question: "What is to be done?" In formulating their answers they also make use of the full range of different ways of conceiving the problem of historicization as such. Some range across the history of the entire world, both in time and space, viewing it as their databank. Others place themselves as part of a densely woven, deeply felt national narrative. Others in their calls for action have invoked a dramatic sense of national crisis, of kairos, the "right time" for insight and decisive action. Of course, such stances are not peculiar to the US or to the current crisis. They are basic modes of relating to national history. But what is striking, at least to an outsider, is the extent to which the US can still be imagined as a classic, self-enclosed and self-referential arena for national history making. The most fluent, contentious and widely read commentator of all, Paul Krugman, puts all three genres of historical argument in the service of his agenda of activist liberalism. This makes him one of the most exciting voices amidst the crisis, not just in the US, but anywhere..

[5] See for instance Michael D. Bordo Agnieszka Markiewicz Lars Jonung , A Fiscal Union for the Euro: Some Lessons from History NBER working paper (2011).

In what follows I will use the question of the historical vantage point to distinguish three basic positions within the US debate: One which treats history as a source of data but begs the question of our own stand point; a second which sees the present as conditioned by evolving historical structures and asks how one might gain leverage and historical agency within such a process; and the third which locates the current moment as a moment of radical crisis and opportunity, and challenges us to rise to the demands of the moment. I will then show how Krugman moves between these different positions, driven in part by his virtuosity and in part by the unresolvable tensions both within and between these different approaches to history. I will conclude by showing how his politics when pushed to its logical conclusion results in a discourse of national activism that begs wider questions about America's position in the world

I

The crisis has produced some surprising intellectual by-products. [6] We have had pop philosophy in the form of *Black Swan*, radical anthropology in David Graeber's millennial history of debt, but surely none more surprising, certainly none more successful in its public impact than a piece of extremely long duree history written by the former Director and associate director of research at the IMF, Kenneth Rogoff and Carmen Reinhart.[7] The sweep of *This Time is Different* rises to the occasion. Reinhart and Rogoff offer an epic 800 year survey of financial crises and debt defaults on the basis of the largest data set of its kind ever assembled. With examples of default both domestic and international ranging from medieval England to late twentieth century East Asia, by way of England's seventeenth-century Glorious Revolution and nineteenth-century Latin America, Reinhart and Rogoff can claim to have placed the history of financial crises on a new footing. Though its prose is well-nigh unreadable, it has become an obligatory reference point in policy discussion. As such it has a strong claim to being the most practically influential piece of history written since Milton Friedman and Anna Schwartz' *Monetary History of the United States*. But what does history mean to Reinhart and Rogoff?

"History shows that when public debt passes 90 percent of gdp it begins to weigh heavily on economic growth", or so it was claimed by Reinhart and Rogoff in their now notorious paper,

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[6] D. graeber Debt: The First 5,000 Years (2012), Taleb, Nassim Nicholas (2010). *The black swan: the impact of the highly improbable* (Second ed.). Penguin

[7] Reinhart and Rogoff, This Time is Different: eight centuries of financial folly (2009),

"Growth in a Time of Debt".[8] Except that it turns out that this depends on accidentally excluding five countries from the sample and assigning the same weight to the experience of the UK and its tiny dominion New Zealand. The scandal surrounding the spurious "90 percent" result has thrown a stark light on the risks involved in marrying historical research to policy advice. Statistical results are highly sensitive to the vagaries of datasets compiled from obscure sources. The more obscure the sources the easier it is for small but significant errors to slip through even the most painstaking fact-checking. Even the best-informed expert is unlikely to intuit the difference that the inclusion or exclusion of ten years of Belgian, Danish or Canadian data can make. Furthermore, in fairness to Reinhardt and Rogoff, historical facts when unleashed into the public realm have a life of their own that even the best efforts of responsible authors may not be able to control.[9] But the argument over the errors in their influential paper have had the unfortunate effect of narrowing the discussion of historical thinking in the crisis to the level of Excel cursor controls. The Reinhart and Rogoff phenomenon is telling not only for the embarrassment of their proof reading error. Their interventions beg far more serious questions about the way in which historical knowledge has been brought to bear on the crisis. In presenting their result as a law-like regularity derived from most complete survey of world history, Reinhart and Rogoff reduce the record of human affairs to an inert databank. The results are deeply paradoxical. This is policy-oriented history writing premised on the assumption that human nature and thus history are in fact unchangeable.

Their vast range of evidence is mobilized to demonstrate not the incessant pace of modernity's ceaseless change, the experience ironically alluded by the title, but its opposite, a pattern of monotonous repetition. Astonishingly, at a moment when capitalism is once more demonstrating its capacity for creative destruction on a quite unprecedented scale, the text that has most captured public attention is bent on demonstrating the Solomonic folk wisdom that "there is nothing new under the sun". According to Reinhart and Rogoff: "Our basic message is simple: We have been here before. No matter how different the latest financial frenzy or crisis always appears, there are usually remarkable similarities with past experience from other countries and from history."[10] "… financial crises follow a rhythm of boom and bust through the

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[8] Reinhart, Carmen M.; Rogoff, Kenneth S. (2010). "Growth in a Time of Debt". *American Economic Review* **100** (2): 573–78.

[9] "Verrechnet", Die Zeit No. 27 27 June 2013, 17-19.

[10] This time is different, xxv

ages. Countries, institutions, and financial instruments may change across time, but human nature does not."[11] Theirs is not a progressive history of capitalism. It is a timeless chronicle of human nature. They are not concerned with the benefits of modern finance, or the real investment for which credit booms were mobilized. The automobile and the IT revolution enter their story only as passing investor fads, aiding and abetting the latest unsustainable boom. The perspective into which they quite unselfconsciously inveigle their readers, is that of the world-weary rentier, who, surveying the last 800 years of human history, has learned just one thing: "the most commonly repeated and most expensive investment advice ever given … stems from the perception that 'this time is different". … financial professionals and, all too often, government leaders explain that we are doing things better than before, we are smarter, and we have learned from past mistakes. Each time, society convinces itself that the current boom, unlike the many booms that preceded catastrophic collapse in the past, is built on sound fundamentals, structural reforms, technological innovation, and good policy."[12] "We hope that the weight of evidence in this book will give future policy makers and investors a bit more pause before next they declare, "This time is different." It almost never is."[13] Though touted as a groundbreaking work of scholarship, Reinhart and Rogoff's book is, in fact, internal to the incestuous world of policy-making, high-brow investment advice, economics departments and financial media whose habits of mind it criticizes. The natural result of this data-driven positivism is that as Reinhart and Rogoff incorporate more and more evidence, history as narrative or process, disappears. Instead, we have a vast collection of episodes strung out in graphs and tables, many organized by country in alphabetical order, regardless of size, significance or chronology, as if to defy any more meaningful organization. At times their obsessive compilation of numerical arrays is reminiscent of that lowest form of market superstition, the numerology of the so-called chartists.

The irony, of course, is that the larger the data-set the more varied the methods of metrication, the more numerous the indices of crisis and bank failure, the more inescapable the conclusion: some times truly *were* different. The intensity of banking, currency and fiscal crises between 1914 and 1945, but most particularly in the 1930s is without parallel in any period of history before or since. Then, after a no less undeniable and remarkable period of calm, lasting

11 This time is different xxviii
12 This time is different xxxiv.
13 This time is different xxxv.

the best part of half a century, there was a second striking escalation of financial stress in the 1980s, which especially when allowance is made for the centrality of the US to the world economy, has reached spectacular new levels since 2008. Two questions follow, questions which though they are framed by Reinhart and Rogoff's data, fundamentally challenge the ahistorical conclusions that they draw. The first demands an explanation of why we today face not a regular crisis, but an extraordinary conjuncture, unprecedented in the sheer scale of financial and monetary instruments involved. This requires a historical explanation not in the sense of a long list of analogous cases, but in the sense of a narrative that illuminates how America today found itself in the situation it finds itself in. The second question, rather than looking backwards, focuses on the drama of the particular moment that we find ourselves in, on the now. Given that *our* time *is* different, how should we react?

In a column of May 2012 the conservative columnists David Brooks coined the phrase 'structuralist" to describe the first type of response. He identified himself with a sort of thinking that views America's problems not as routine, not merely as a typical investment bubble gone bad, but as fundamental and deriving from deeper historical trends. Brooks coined the phrase to describe the position staked out by Raghuram Rajan in his prize-winning *Faultlines. How Hidden Fractures Still Threaten the World Economy*. Rajan teaches finance at Chicago and has recently been appointed chief advisor to the Indian Central Bank. He first made a name for himself at the 2005 economic policy gathering at Jackson Hole, when he was serving as chief economist of the IMF. Rajan had the temerity to confront Alan Greenspan, on the point of his retirement, with an alarming warning of the huge risks that had built up within the US credit system under his watch.[14] Despite his establishment credentials, Rajan is both a wide-ranging and unconventional thinker. Not the least remarkable feature of *Faultlines* are his sources. In the footnotes he credits Wade, Brenner and Streeck as inspirations, all of them favourites of the defiantly neo-Marxist *New Left Review*. Not surprisingly, Rajan's use of history is very different from that of Rogoff and Reinhart. His is not an ahistorical, positivism of the big-N dataset. Instead, he sketches a history of the present, concerned to show in detail how specific trends and processes define and constrain our present scope for action and insight. Beneath the credit policy of the 1990s and 2000s lay not simply human nature, but a new and deeply entrenched problem

[14] Raghuram G. Rajan Fault Lines: How Hidden Fractures Still Threaten the World Economy (Princeton, 2010), 2-3.

of American society – the transformation of the global division of labour resulting from the enrollment of hundreds of millions of new workers in Asia. In a chapter memorably entitled "Let Them Eat Credit" Rajan offers a remarkable sketch of successive Republican and Democrat administrations in the 1990s and 2000s seeking to compensate for the fading American dream by subsidizing cheap credit for lower income American families.[15] Huge mortgage debt was thus added to the system of private health insurance and unregulated credit card debt, to expose an ever larger fraction of American society to unprecedented levels of financial risks. With one of the weakest social safety-nets in the Western world and a workforce increasingly at risk of unpredictable and prolonged bouts of unemployment, American society has become not just the chief motor of global demand, but also the polity that responds most dramatically to any threat of a downturn. As unemployment mounts and millions are thrown into severe distress, Congress responds with ad hoc and ill-targeted fiscal measures. The Fed is more susceptible to political pressure than any other central bank. Knowing this, Wall Street cynically calculated that it could rely on the "Greenspan put". The Fed would not act to prick bubbles, but it would intervene in the event of a crash to prevent a meltdown. By identifying the interests of American society with the prosperity of the markets, Greenspan had made it a one way bet. Driven by the needs of an increasingly anxious middle class, America has become a profoundly destabilizing force in the world economy.

With his emphasis on the need to strengthen the social safety net and the education system, Rajan can hardly be classified as a simple-minded marketeer. His position is in fact reminiscent of the classical theorists of the Soziale Marktwirtschaft, seeking a constitutional fix by which capitalism and democracy may be reconciled. But Rajan, attracts the ire of many American liberals for his insistence on the need for structural solutions. Blaming the victims for their own failings in the labour market, he appears to refuse the urgency of the unemployment crisis. Whatever structural problems may bedevil the US economy, his critics argue they are secondary to the disastrous collapse of confidence and demand that threaten to suck the economy into a double-dip recession. The jobless recovery is an effect not of structural weakness but of lagging demand. Rather than looking back over the last few decades to see the roots of America's problems in late twentieth-century globalization, their historical reference point is that previous moment of American national crisis, the Great Depression. The 2000s saw a remarkable

15 Rajan, Fault Lines, 21-45.

resurgence in nostalgia for the 1930s and 1940s. Tom Brokaw readied the myth of the "greatest generation" in time for the millennium.[16] Memories of the New Deal suffused the Obama campaign and the early phase of his administration.[17] Not that the experience of the New Deal is uncontroversial. Indeed, what might surprise Europeans is the extent to which it still seems worthwhile to Americans to argue over this period of history.[18] Economists square off over the correct interpretation of the unemployment crisis of the 1930s. For Monetarists such as Ben Bernanke the correct interpretation of the Great Depression is an article of faith. Speaking on behalf of the Fed on the occasion of Friedman's 90th birthday he stated: "I would like to say to Milton and Anna: Regarding the Great Depression. You're right, we did it. We're very sorry. But thanks to you, we won't do it again."[19] The Fed would never again allow deflation to take hold. It would never allow the money supply to contract, or an epidemic of bank failure. Meanwhile, for so-called Freshwater economists, the exponents of the most doctrinaire form of rational choice economics, the vast unemployment of the 1930s was the result not of bad monetary policy, but of disastrous supply-side interventions that caused an abrupt and unprecedented shift in the willingness to work.[20] As conceived by the Freshwater economists, the Great Depression was, as Paul Krugman cruelly put it, something more akin to a "Great Vacation".[21] Meanwhile, on the left there is vigorous disagreement over whether to treat the New Deal as a third major moment of national refoundation, as the legal theorist Bruce Ackerman sees it, or, as a moment of great promise betrayed.[22]

A particularly radical version of this fixation on the 1930s is exhibited by Robert Schiller and Akerlof in their book *Animal Spirits*. In this light-weight offering the market watcher and the Nobel prize winner offer an argument for a rehabilitation of Keynes's thinking about psychological factors as the true drivers of economic activity. What makes their book worthy of

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16 Tom Brokaw, *The Greatest Generation* (1998).

17 Christina D. Romer, Council of Economic Advisors, Lessons from the Great Depression for Economic Recovery in 2009 Brookings Institution, Washington, D.C., March 9, 2009

18 Robert Whaples "Where Is There Consensus Among American Economic Historians? The Results of a Survey on Forty Propositions" The Journal of Economic History, Vol. 55, No. 1 (Mar., 1995), pp. 139-154

19 Remarks by Governor Ben S. Bernanke At the Conference to Honor Milton Friedman, University of Chicago, Chicago, Illinois November 8, 2002. http://www.federalreserve.gov/BOARDDOCS/SPEECHES/2002/20021108/default.htm

20 Edward C. Prescott, Some Observations on the Great Depression Federal Reserve Bank of Minneapolis Quarterly Review Winter 1999, vol. 23, no. 1, pp. 25–31. Lee E. Ohanian, WHAT - OR WHO - STARTED THE GREAT DEPRESSION? 2009 NBER Working Paper 15258 http://www.nber.org/papers/w15258

21 Paul Krugman New York Times September 2 2009 How Did Economists Get it So Wrong?

22 Compare Bruce Ackerman, We the People Volume 2 Transformations (Harvard, 1998) and Alan Brinkley, The End of Reform: New Deal Liberalism in Recession and War (1996).

note is its encapsulation of one particular version of the history of the 1930s. For Shiller and Akerlof the development of the US economy is a passion play, dominated by two great acts, the current crisis and its only precursor, the great depression. Like the current crisis, the great depression was more than merely an economic or political event. It had epistemic significance. Whereas Rogoff and Reinhart seek knowledge by brute force and Rajan and the structuralist tell a complex story of historical change, Shiller and Akerloff begin with Henry James: "Life occasionally has its revelatory moments. In Henry James' *The Golden Bowl*, it was just a glance – and then the American heiress knew that her suspicions were accurate … For the world's economy, September 29, 2008, was such a defining moment … a repeat of the Great Depression – was now a real prospect."[23] For Shiller and Akerloff it is only at such moments of crisis that we have the possibility both to see the truth about the functioning of the economy and to adjust its governance accordingly. The truth about capitalism reveals itself not through the accumulation of massive datasets, or through the calm, retrospective reconstruction of a historical narrative, but through the immediate, lived experience of crisis on the part of contemporaries themselves. It is through our own experience of today's crisis that we can once more appreciate, the vertiginous insight into the irrationality of capitalist economic activity, that came to Keynes in the 1930s . "In those hard times we learned how the economy really works. We also learned the proper role of government in a robust capitalist economy." Unlike Rajan who sees an unbroken institutional continuity from the 1870s down to the 1970s, Shiller and Akerloff insist that it was in the wake of the 1930s that a basic set of structures were put in place to save capitalism from itself. Investor confidence was upheld by a general narrative of progress launched by victory in World War II. Fairness was maintained by unions. The claimers of savers and debtors were balanced by avoiding excessive inflationary or deflationary pressures. Effective regulations curbed the greed of Wall Street. But, Akerlof and Shiller insist, this highly effective system of governance was always vulnerable, because the message of the Keynesian revolution had only been partially digested. The full force of Keynes's radical message in the *General Theory* was censored. Only the elements capable of incorporation into a technicistic, rationalist macroeconomic paradigm ever established themselves in the mainstream. It was this in turn which rendered Keynesianism vulnerable to the rational choice, microfoundations counter-reformation of the 1970s. But the

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[23] George A. Akerlof and Robert J. Shiller *Animal Spirits:How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism* (Princeton, 2009), vii

rationalism of the new economics, in its turn, was totally unsuited to curbing the violent passions of rapacious greed and inequality that market liberalization unleashed. With their naïve optimism about the “invisible hand”, crusading neoliberal governments allowed the financial markets to get drunk. The sobering shock of the current crisis promises to Akerlof and Shiller the opportunity to restate the basic insights of Keynesian wisdom, reinforced by the new insights of behavioural economics.

II

Over the last ten years there has been no commentator more assertive, aggressive and widely read than Krugman. As a Nobel prize-winning macroeconomist and columnist at the *New York Times* and the principal critic of the Bush administration he has had a remarkable echo. But what is also remarkable in light of the distinctions we have developed above is the ease with which Krugman moves between all three of the different historical registers that frame the American debate. In attacking Rajan, Krugman has given Brook’s structuralist tag his own political spin. For Krugman, structuralists are conservatives bent on exploiting the crisis to impose their agenda of reactionary retrenchment. Structuralist readings of America’s unemployment problem are factually incorrect. Rajan’s suggestion that the current bubble was inflated by public lending authorities, Fannie Mae and Freddie Mac, to appease struggling blue collar voters is absurd given the way that big money currently talks in US politics. Congress doesn’t act out of concern for those with poor credit rating. It was not the votes of Middle America that drove the boom, but the reckless way in which politics underwrote the rampant greed of those who stood to profit from the lending. Structuralism is really an excuse for inaction. Krugman likes to figure himself as a man of action. To focus on the long-run at a time of crisis is irresponsible. In the long-run we are all dead. We should be less preoccupied with why this recession started than with getting out of it. In any case, we don’t really know how to manage long-run growth, whereas we do know how to achieve short-run effects. End this Recession Now! In true revivalist style, he labels it an old-fashioned recession, unnecessary, archaic crisis, to be combatted the old-fashioned way, i.e. with full-blown Keynesian medicine. Large doses of fiscal policy.

This is polemically effective, but it is not a posture that Krugman can consistently maintain. In his wide-ranging writings over the last twenty years, he has offered us much more than a diagnosis of the immediate crisis. Despite his refusal to get sucked into debates about

America's long-term growth prospects, he does have a vision of the future. He cares about infrastructure so much that he is even willing to celebrate Boston's notorious overdue and over-budgeted Big Dig. And he does have an historical explanation of how we got here. Indeed, if we follow the trajectory of his work and his reviewing of the work of others, we find in Krugman not only a man of action, but a long-range thinker, a left-structuralist. Though for him, too, the Great Depression is the touchstone, he situates that crisis against the backdrop of a highly political and thoroughly historical story. "To understand the deeper reasons for our current crisis" he insists we must "talk about income inequality and the coming of a second Gilded Age."[24] Whereas Rajan sees patterns of income inequality as reflecting the apolitical forces of technology and international trade, for Krugman the distribution of income and wealth is ultimately a question of politics. As he put it to *Wired* Magazine, "it's quite possible that the long run state, that the natural state, except for special episodes, is one of extreme inequality. …. We still think of that … pretty decent society — obviously with its problems, but pretty decent in terms of the middle class — that we had for a generation after World War II as being somehow the natural end state of modern technology, modern development, and I guess the balance of the evidence says, no, that's not how it works."[25] What created the "decent", reasonably egalitarian society in which Krugman and the baby boom generation grew up was not the normal operation of the market economy, before the latest phase of globalization, as conceived of by Rajan, but politics, specifically the so-called "great compression" that began in the 1930s.[26] As Krugman put it, "the New Deal era produced a big leveling; it basically turned us into a middle-class country, and it stuck. The question is not why it happened but why it stuck. It was unions. … It's probably true that the union movement was a big factor in our having a largely middle-class country. The destruction of unions outside the public sector is an important factor in our no longer being a middle-class country." "The best generation of economic growth we've ever had was the 25 years or so after 1947, which was a period of high unionization and high marginal tax rates." The breaking of this regime of high unionization and relatively low inequality "was a political decision", not an economic necessity. It was a social and political equilibrium upset by the insurgent force of the new right, of so-called "movement conservatism". Playing on the

[24] Krugman, End this Depression Now! (2012), 70.

[25] Krugman interview with Wired Magazine, http://www.wired.com/underwire/2012/05/paul-krugman-geeks-guide-galaxy/all/1.

[26] Krugman takes this phrase from C. Goldin and R.A. Margo, "The Great Compression: The Wage Structure in the United States at Mid- Century" *The Quarterly Journal of Economics*, Vol. 107, No. 1 (Feb., 1992), pp. 1-34

divisive racial politics of the civil liberties revolution, they broke the stranglehold of the Democrats on the Solid South and brought to power first the Nixon and then the Reagan administrations. "I think the choice we made, really without understanding that we were making the choice, was to make Walmart jobs low paying. They didn't have to be. In a different legal environment, a megacorporation with more than a million employees might well have been a company with a union that resulted in decent wages. … If the rise of big-box stores had not taken place under the Reaganite rules of the game, with employers free to do whatever they wanted to block union organizing, we might have had a different result." [27]

What gives Krugman's analysis its force is precisely the way in which he marries the historical depth of a structuralist account with the energy and force that derives from seeing history as revelation. His is not the calm inevitability of globalization as presented by Rajan. Nor does he fall in with the somewhat light-hearted invocation of "animal spirits" offered by Akerloff and Schiller. Krugman, as he repeatedly urges his readers, is in earnest. What are at stake are neither arid academic theories nor political debating points, but the past, present and future of tens of millions of his countrymen and women. Though separated by decades and a considerable increase in the standard of living the stakes are no less than they were in the 1930s. What constitutes the continuity is not the economic fabric or institutions. Too much has changed and Krugman knows that. The abiding links are the social fabric and the Constitution of the United States, the Republic, and American democracy. That is what is at stake in the current crisis, as it was in the 1930s. Not for nothing is his blog entitled "the conscience of a liberal".

The problem is that if the New Deal is to be the central point of reference, it is, for Krugman as a Keynesian economist, a remarkably unrewarding source of inspiration in dealing with the current crisis. Krugman is the high-priest of fiscal activism. This, more than anything else, is his distinctive, Keynesian line. Monetary policy will not suffice. All-out fiscal intervention is indispensable. Assuming a large multiplier – the ratio by which government spending will be multiplied by private transactions, a number hotly disputed amongst economists - a trillion dollar jobs program would sweep away whatever structural issues there may be. The problem for Krugman is that between 1933 and 1940 the Roosevelt administration delivered nothing of this sort. In fact, for most of the New Deal there was little or no fiscal stimulus from the Federal government, once the effects of unemployment on government budgets are allowed

[27] Krugman playboy interview 2012.

for. As Christina Romer, Obama's first chair of economic advisors, herself an economic historian, demonstrated in a series of fundamental papers, the recovery of the US economy from the Great Depression was substantial.[28] But it was driven by monetary policy – the stabilization of the banking system and the abandonment of the gold standard. In 2009, Romer therefore argued for a large-scale fiscal stimulus package in terms that were explicitly counterfactual. Fiscal policy had not hitherto worked because it had never been tried. America must make the experiment. Krugman, characteristically, is more assertive. There *was* a major fiscal policy experiment under the FDR administration. But it was not the New Deal that delivered that impetus, but the war. From 1940 armaments orders from Washington and London delivered a massive fiscal stimulus that swept away any apprehensions about possible structural unemployment and restored full employment. But Krugman goes further than this. There was in fact a fiscal experiment conducted in the 1930s, just not in the United States. To make this point he has invoked series of papers by the economic historian team of Barry Eichengreen and Kevin O'Rourke. Since 2009 they have been benchmarking the progress of the worldwide recession and recovery against the global experience of 1929-1939. On this basis they have also intervened decisively in the debate over the efficacy of fiscal policy. In the late summer of 2012, to the embarrassment of fiscal hawks everywhere, but perhaps most particularly in Berlin, the IMF issued a shame-faced report acknowledging that the effect of fiscal policy stimulus was far larger than it and most other mainstream outlets had previously acknowledged.[29] The effects of Eurozone-wide austerity are therefore likely to be disastrous. Eichengreen and O'Rourke seized on this opportunity to give new momentum to a scholarly paper they had first put out in 2010 discussing a similar theme in an even darker setting - the worldwide arms race of the 1930s. What this shows is that military spending by Imperial Japan, Fascist Italy and Nazi Germany did, indeed, have very powerful multiplier effects.[30]

Krugman is clearly delighted with this technical result. But in political terms, he knows that in invoking Mussolini's invasion of Abyssinia as a successful case of fiscal stimulus, he is sailing close to the wind. As he remarks on his blog, every time he issues such pronouncements, the *New York Times* is inundated with slanderous emails accusing him of advocating war. On his

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[28] Christina D. Romer "What Ended the Great Depression?" The Journal of Economic History, Vol. 52, No. 4 (Dec., 1992), pp. 757-784.

[29] IMF World Economic Outlook October 2012, 41-43.

[30] Krugman conscience of a liberal October 23, 2012, Theory and the Thirties

blog site he has had to ban casual references to Hitler. His reaction to such ideas is justifiably caustic. He was one of the loudest opponents of Bush's wars. Though he makes nothing of it, Krugman owes his life to the fact that his grand-parents made the long journey to the United States from a "long lost shtetl" in Brest Litovsk. But justified as Krugman's frustration may be, he is not innocent in provoking these reactions. It is not good enough simply to dismiss his critics as fools. Their confusion arises from the acrobatics that Krugman performs when he shifts between historical registers. What Krugman expects us to understand is that when he enthusiastically employs convenient empirical findings about war-mongering fascist regime, to justify the call for government spending today, he is doing so in the manner of a politically and historically detached technician and not advocating the kind of politics that actually enabled that activist fiscal policy. He is approaching history in the Reinhart and Rogoff mode. The past is not being treated as determining our present, or as a moment to be emulated, but simply as a mine of information, a treasure trove of technical data.[31] As Krugman insists: "*economics is not a morality play*. It's not a happy story in which virtue is rewarded and vice punished."[32] In fact, movement is part of Krugman's method. On the one hand he is able to mobilize Eichengreen and O'Rourke's technical results, as technical results. At that moment we are not siding with the embattled Abyssinians or the Popular Front. We simply use the data for our own purposes. Similarly, when in urgent, Keynesian mode, he insists with an impatient wave of the hand that we should spend money on anything, literally anything, he does not mean us to take this as the last word. He does not really mean that the difficulty of managing long-run economic growth excuses us from taking a view on the likely long-run consequences of short-run decisions. He has, after all, elsewhere set out a critical reading of America's recent history and what progressives might hope for. But that process of separation also works in reverse, so that in reviewing recent history or looking forward in science-fiction mode to a distant future he allows himself a bleak pessimism that is at odds both with the optimistic sense of possibility that he insists upon in his political columns and the counterfactual possibilities constantly mobilized by wide-ranging comparative and technical analysis.

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[31] For the Abyssinian reference see New York review of books Our Giant Banking Crisis—What to Expect May 13, 2010 Paul Krugman and Robin Wells

[32] September 28, 2010, 3:33 pm302 Comments Economics Is not a Morality Play

Every time he moves, Krugman wants us to acknowledge that he is actually, already "somewhere else" in the argument. But, what if we attempted to pin him down? With regard to the interwar period, Krugman says three different things:

1. Fascist rearmament demonstrated, under the forensic microscope of retrospective quantitative analysis, the existence of a large fiscal policy multiplier.

2. But, as Krugman knows from his tireless political battles in the present, to launch a spending program on the scale of fascist rearmament is politically difficult. In his words: "Politics. Intellectual confusion. Inertia. Misplaced fears", stand in the way of an adequate policy response. And this is precisely what sets dictatorships apart. "There's nothing special about military spending from an economic point of view, but as a political matter Hitler managed to override the usual objections to stimulus." In other words it took a highly unusual politics to muster the necessary energy to achieve the breakthrough. [33]

3. Suffering from its usual divisions American democracy in the 1930s was not capable of matching that performance, until it was galvanized into action by the war. "…it would have been much better if the Depression had been ended" by the New Deal "with massive spending on useful things, on roads and railroads and schools and parks. But the political consensus for spending on a sufficient scale never materialized; we needed Hitler and Hirohito instead."[34]

We know that Krugman believes that, if anything, the impasse in American politics today is worse than it was in the 1930s. And yet he nevertheless doggedly maintains that it makes sense to advocate for a spending programme on the scale of that in World War II, a programme calculated on the basis of statistical findings for the size of the multiplier during the 1930s arms race, all the while indignantly insisting that he is no advocate of war. How are we to make sense of this? Specifically, does the logic of his structuralist historico-political analysis (history as structuration) not refute the possibility of action (history as moment of revelation) suggested by his cold-blooded calculation of the real economic impact of the armaments booms (history as data)? Is a truly gigantic civilian spending program, outside the context of an either hot or cold war, a plausible historical counterfactual for the US?

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[33] October 20, 2012, 9:46 am172 Comments Bubble, Bubble, Conceptual Trouble

[34] September 28, 2010, 3:33 pm302 Comments Economics Is not a Morality Play

To anyone familiar with the intellectual debates within the twentieth-century left, this impasse cannot but seem familiar. Krugman's thought mirrors the problems that the tradition of Western Marxism broke itself upon, from Lukacs's *History and Class Consciousness*, down through Sartre and Castoriades writings of the 1960s and 1970s.[35] How is one to bring together a positivist science of society with a complex sense of historical determination and to integrate both of those with a political calculus for which time is neither an entangling process, nor a parameter defining a data-set, but a syncopated series of moments and opportunities for insight and action? Western Marxism even at its most ambitious struggled to offer a coherent answer to that question and since the 1970s, along with the philosophy of history in general, the attempt has largely been abandoned. From what we know of his writings and his education it is probably safe to assume that Krugman is innocent of any exposure to these dilemmas. But this makes it all the more intriguing that Krugman has himself provided a revealing explanation of the deeper sources of his own thinking about history, expertise and political action.

In autobiographical reflections after winning the Nobel Prize, Krugman described his domestic and high school existence in the suburban 1960s as entirely mundane except for "those science fiction novels. Indeed, they may have been what made me go into economics. Those who read the stuff may be aware of the classic *Foundation* trilogy by Isaac Asimov. It is one of the few science fiction series that deals with social scientists -- the "psychohistorians", who use their understanding of the mathematics of society to save civilization as the Galactic Empire collapses. I loved Foundation, and in my early teens my secret fantasy was to become a psychohistorian. Unfortunately, there's no such thing (yet)." He discovered this at Yale in 1970, where he went with Asimov's psychohistorian-hero Hari Seldon in mind, only to find that actual academic history was "too much about what and when and not enough about why". So, he opted instead for economics. Economics, as he explained to Larissa MacFarquhar for *The New Yorker*, examined the same infinitely complicated social reality that history did but, instead of elucidating its complexity, looked for patterns and rules that made the complexity seem simple. "Why did some societies have serfs or slaves while others did not? You could talk about culture and national character and climate and changing mores and heroes and revolts and the history of agriculture and the Romans and the Christians and the Middle Ages and all the rest of it". Or,

[35] Milestones in this tradition: G. Lukacs, Geschichte und Klassenbewusstsein, J.P. Sartre, Critique of Dialectical Reason (Fr 1st edition 1960), C. Castoriadis, *L'Institution imaginaire de la société*, 1975.

like Krugman's economics teacher Evsey Domar, "you could argue that if peasants are barely surviving there's no point in enslaving them, because they have nothing to give you, but if good new land becomes available it makes sense to enslave them, because you can skim off the difference between their output and what it takes to keep them alive. Suddenly, a simple story made sense of a huge and baffling swath of reality …".[36]

Indeed, Krugman went on to discover that this difference between history and economics has its own history. It was, as Krugman put it to MacFarquhar , "a development that Keynes had helped to bring about." In American economics departments in the "nineteen-twenties and thirties, economics had been more like history: institutional economics was dominant, and, in opposition to neoclassical economics, emphasized the complicated interactions between political, social, and economic institutions and the complicated motives that drove human economic behavior." "Then", Krugman explains, echoing Akerlof and Shiller, "came the Depression, and the one question that people wanted economists to answer was "What should we do?" "The institutionalists said, 'Well, it's very deep, it's complex, I mean, you just talk about what happened in 1890,' Keynes by contrast "was coming out of the model-based tradition, even if it was pretty loose-jointed by modern standards, basically said, 'Push this button.' " Push this button—print more money, spend more money—and the button-pushing worked. Push-button economics was not only satisfying to someone of Krugman's intellectual temperament; it was also, he realized later, politically important. Thinking about economic situations as infinitely complex, with any number of causes going back into the distant past, tended to induce a kind of fatalism: if the origins of a crisis were deeply entangled in a country's culture, then maybe the crisis was inevitable, perhaps insoluble—even deserved."[37]

For Krugman, in short, it is precisely the insufficiency of historical explanation that gives him hope. The freedom both for clear-sighted analysis and action depends on their not being a fully determined reality. It depends on us not being able, or attempting to determine the ways in which for the want of a shoe, the battle and hence the war and hence history was lost. It is because of this incompleteness, the impossibility of an all-encompassing master science of society that Krugman is constantly on the move. It creates the opportunities for creative arbitrage

[36] Larissa MacFarquhar, The Deflationist How Paul Krugman found politics, The New Yorker, March 1 2010. Read more: http://www.newyorker.com/reporting/2010/03/01/100301fa_fact_macfarquhar#ixzz2HupVHWPE

[37] Larissa MacFarquhar, The Deflationist How Paul Krugman found politics, The New Yorker, March 1 2010. Read more: http://www.newyorker.com/reporting/2010/03/01/100301fa_fact_macfarquhar#ixzz2HupVHWPE

between different forms of knowledge and modes of intervention, for instance, translating a Noble Prize in economic trade theory into the basis for political opposition to the Iraq war and visa versa. But as a movement impelled as much by constant frustration as by possibility, the search for solutions can lead to disturbing places.

One way to square the circle between the desire for change, the hypothetical possibility of a better future and the frustrating circumstances of the present is to appeal for a deus ex machina, or a "revolutionary" insurgency against the current order. And Krugman can certainly see the appeal of a saving hero "…who could be in a position to move stuff …". "The fact is", he goes on, "the Great Depression ended largely thanks to a guy named Adolf Hitler. He created a human catastrophe, which also led to a lot of government spending."[38] By contrast, Obama, despite the transcendent rhetoric that attended his election, has been a disappointment. There has been no "human catastrophe" to be sure, simply a great missed opportunity to orchestrate a movement for change. Despite the moral and financial bankruptcy of Wall Street, the Obama administration has been supine. The consequences have been serious: "My sense is that in the face of this catastrophe, people needed some sign, a kind of symbolic sense of who was to blame." By failing to define an enemy, Obama helped create a political monster, the Tea Party "that's now come and bitten him. If you're not going to point fingers at the people who actually caused the problem, then those fingers may end up pointed at you." "One of the big differences in the 1930s", Krugman insists, was that there were genuine commissions of enquiry into the disaster on Wall Street. "There was a genuine attempt to say who the evildoers were. This time around the powers that be are desperately afraid that Wall Street might be mad at them."[39]

Could an enemy be found elsewhere? Clearly Krugman himself would prefer civilian infrastructure spending to military procurement. "Everybody in the world except us is doing a lot of investment in infrastructure and education. This is the country of the Erie Canal and the Interstate Highway System. The Erie Canal was a huge public infrastructure project financed with no private or public-private partnership. Can you imagine doing that in 21st century America? We really have slid backward for the past 200 years from the kinds of things we used to understand needed to be done now and then." On the other hand, "if it were announced that we faced a threat from space aliens and needed to build up to defend ourselves, we'd have full

[38] Krugman playboy magazine 2012.
[39] Krugman Playboy magazine 2012.

employment in a year and a half."[40] A rather more terrestrial and all the more alarming option emerges from a piece Krugman co-authored with Robin Wells in the desperate winter of 2010-2011 following the tea-party's triumphant march into Congress.[41] In the pages of the *New York Review of Books* Krugman and Wells canvassed the limited range of measures that Obama might push through in the face of Congress, by executive order. They then struck upon another way of wrong-footing the Republicans. Obama, they argued, should rally support by challenging China over its currency manipulation. Given China's trade surplus and the opposition that China and Germany were mounting to Bernanke's stimulus efforts in the fall of 2010, Krugman had economic reasons for making this call. But this was a political not an economic technical recommendation:

"Democrats could also demand that the administration—specifically, the Treasury—act on the problem of China's currency manipulation, which keeps the remnimbi artificially cheap compared to the dollar. While China's actions are not the main factor in our economic woes, they are a factor. China's unprecedented level of currency manipulation siphons off demand for US products that is much needed in our depressed economy, and shifts our imports away from other countries such as Mexico that are much more likely to reciprocate with purchases of American goods. The obvious American response is to threaten, and if necessary actually impose, countervailing duties on Chinese exports … Such a move would have overwhelming Democratic support in Congress, and would put Republicans on the spot if they tried to block it." As recently as February 2012 Krugman was willing to say that "under current circumstances, with mass unemployment and a complete absence of policy levers to do anything about it, China is hurting us, period. There's no ambiguity about it. Chinese policy right now is our enemy."[42]

Of course, a trade war with China to rally the Democratic troops is not the same thing as a shooting war against Imperial Japan and Hitler's Germany, let alone an unprovoked assault on Abyssinia. The historical precedents that Krugman invoked were the Nixon-era surcharges on undervalued German and Japanese imports. Not the stuff of global conflagration. Furthermore, in

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40 Krugman Interview with Playboy Magazine 2012 available at http://thefaintofheart.files.wordpress.com/2012/02/the-2012-interview-with-paul-krugman.pdf

41 New York Review of Books "Where Do We Go from Here?" January 13, 2011 Paul Krugman and Robin Wells. See also the aggressive tone of "Taking On China" By PAUL KRUGMAN Published: March 14, 2010

42 Krugman Playboy interview 2012.

the course of 2012 Krugman has backed away from this issue entirely.[43] On the basis of the numbers there is good reason to believe that, thanks to rapid Chinese inflation, the currency rates are no longer fundamentally misaligned. Conveniently, this allowed Krugman in October 2012 to score points off Romney, who was still focused on the China issue, accusing him of indulging in "bluster aimed at making voters think you're tough". But tactically-motivated "bluster" was precisely what Krugman himself had advocated in the face of electoral rout of 2010. It is a temptation that lurks behind any aspiration to dramatic national self-assertion, especially if this is expressed not merely as a revolt against domestic constraints, but cast as a matter of urgent confrontation on the international stage. It is not for nothing that many on the American progressive left are haunted by the fear that the parameters of America's national political arithmetic may require moments of re-founding to be coupled with domestic or international confrontation.

III

Questions of sovereignty are, of course, at the very heart of the European crisis. But elites on all sides are at pains to limit the kind of nationalist impulses that are articulated with such frank lack of reserve in American economic policy discourse, both from the Republican and the Democrat side. But, Krugman and Romney's tirades aside, this does not mean that there is not in America as well a clear awareness of the massive interdependence of the world economy. America the military hyperpower is the world's largest debtor. In popular argument there is much talk of future challenges. It is popular once more to invoke stories of the rise and fall of great powers. Strategists speculate about a moment of apocalyptic clash in the South China Sea. But on the inside of the policy debate it is clear that the US is already caught up in a historical process which over the last ten years has begun to significantly constrain America's absolute economic sovereignty.

In his hugely influential position paper on the so-called "global savings glut" in 2005, Ben Bernanke highlighted the huge inflow of money from the high-saving surplus economies of Asia and Europe. By unilaterally pegging their currencies to the dollar at undervalued rates, large peripheral exporters were accumulating sustained surplus, which when they are recycled to the United States, drove down US interest rates preventing the Federal Reserve from effectively reining in the upward spiral of the US credit boom. Though the scale of the inflows is

[43] Krugman October 22, 2012, 12:58 pm An Issue Whose Time Has Passed

undeniable, Bernanke's argument has been widely criticized as deflecting blame away from the US financial authorities for their failure to effectively regulating their banking and mortgage sectors. But this reduces the argument once more to a debate about US national policy and misses Bernanke's main point. What the future Fed chairman was highlighting was that Washington was losing control of interest rates, the main lever of macroeconomic policy. Furthermore, Bernanke hinted at a further argument, which was spelled out in starker terms by both Rajan and Martin Wolf, the chief economic columnists of the influential FT. What had triggered the new strategy adopted by the Asian states was their experience with the vagaries of the international financial system since the disintegration of the Bretton woods system in the 1970s. The Asian financial crisis of 1997-1998 followed the Latin American and Mexican debt crises of the 1980s and 1990s. Too often forgotten in the West, the humiliation dealt out, notably to Indonesia by the IMF in 1997, left an indelible impression, an impression only driven home by the Argentinian disaster of 2001. Integration into the global economy offered great advantages, but as far as the periphery was concerned international institutions could not be counted on to deliver stability or bail outs on acceptable terms. The strategy of fixing Asian currencies at undervalued rates against the dollar was a means of risk management and self-assertion within the international economy that reflected profound and undigested problems within its institutional framework.

The team of economists at Deutsche Bank who in 2003 first identified the significance of the phenomenon of exchange rate pegging and dubbed it Bretton Woods II did so because they believed it to be a highly functional and internally stable arrangement that could be expected to last.[44] The peripheral surplus countries would eventually graduate to full inclusion in the core of the system, in the same way as Japan and Germany had done. But it was an unprecedented and anxiety-provoking interdependence. Already in March 2004 Lawrence Summers, Clinton's former Treasury Secretary, warned that the stability of the world had come to depend, in a haunting echo of the Cold War, on a "balance of financial terror".[45] The terrifying risk was of Mutual Financial Destruction. Confidence in the US bond market might collapse, leading the dollar to plummet and interest rates to sky-rocket. Meanwhile China would suffer epic portfolio

[44] Michael P. Dooley, David Folkerts-Landau, Peter Garber, "An Essay On The Revived Bretton Woods System" NBER Working Paper 9971 September 2003.

[45] Lawrence H. Summers, "The United States and the Global Adjustment Process" Peterson Institute for International Economics 3rd Annual Stavros S. Niarchos Lecture 23 March 2004.

losses and see a surging exchange rate ruining its export-based industrialization program and unleashing massive social unrest. Though this nightmarish scenario cannot be ruled out, what has been remarkable since 2007 has been the durability of the Pacific axis of the world economy. There has been no dollar sell off, despite the antics in Congress. The landslide came not in the foreign exchange market, or in the US bond market, where yields remain close to zero, but in the mountainous pile of US private credit. But if Bretton Woods II is for now proving robust, this begs the question. How does the story end? In 1971 Bretton Woods I disintegrated, helping to set the stage for global stagflation and an unsteady system of floating exchange rates. Europe responded with the succession of projects of monetary coordination that ended with the Euro. How might the story of Bretton Woods II develop?

Like Krugman, the Fed and the US Treasury seemed determined that Bretton Woods II should in due course go the same way as its predecessor, giving way to a truly global system of free exchange rates with the renminbi floating against the dollar, yen and Euro. Under the current system, the vast monetary expansion undertaken in the US is putting huge pressure on those determined to maintain their exchange rates. But in the United Nations, in the IMF and the G20 there is increasing impatience with the US stance. In the fall of 2012 this vented itself in the remarkable decision taken by the IMF to give conditional approval to the capital controls through which peripheral countries might insulate themselves against inflows of US capital.[46] A truly central element of the Washington consensus has thus come undone. Export-promoting industrialization strategies will be upheld even at the expense of free capital movement and persistent global imbalances. Does this suggest that the history of Bretton Woods II might be different from its predecessor? Rather than careening towards a 1970s break-up, might Bretton Woods II embark on a journey back to the future? In a self-conscious historical reprise it was precisely to the founding moments of the postwar era that governor Zhou of the Chinese central bank referred in March 2009 in his widely quoted speech calling for fundamental monetary reform.[47] In light of the current crisis, he reminded his audience of the basic decision made in 1944 to opt for a world financial system based on a national currency, the dollar, as opposed to a synthetic global currency, the Bancor, favored by Keynes. America's muscle distorted Keynes's master plan. Bretton Woods came fully into force not until 1957. Already by the 1960s the

[46] IMf The Liberalization and Mangement of Capital Flows: An Institutional View, November 14 2012.
[47] Zhou Xiaochuan: Reform the international monetary system 23 march 2009 http://www.bis.org/review/r090402c.pdf

imbalances in the dollar-based system were proving unsustainable. After only 14 years of full operation Bretton Woods was history. Is it not now time to learn from this experience, Zhou asked? Is it not time to move to a truly global currency system, based not on the dollar, or on gold, but on a synthetic, "super-sovereign", collectively-managed reserve currency. These are not the remarks of a postcolonial intellectual calling for the provincialization of Europe. They are demands articulated by a growing Asian power, America's largest official creditor. They are self-consciously derived from the history of the trans-Atlantic system itself and they were promptly endorsed by a high-level commission of the United Nations headed by Joe Stiglitz.[48] Whatever comes of this Chinese intervention - Zhou acknowledged that it would take "extraordinary political vision and courage" to carry through such a reform - it surely marks a turning point. Not since the advent of the modern world economy has there been a multilateral conversation of this kind about its history or its future. It serves notice that the days in which the trans-Atlantic dialogue of the deaf between the Europeans and Americans will monopolize the definition of our collective present, may be passing into history.

[48] UN, Report of the Commission of Experts of the President of the UN General Assembly on Reforms of the International Monetary and Financial System Sep 21 2009.