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**Paper by invitation**

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# Limits of Policy Intervention in a World of Neoliberal Mechanism Designs: Paradoxes of the Global Crisis

**Summary:** The current global context poses several paradoxes: the recovery from the 2009 recession was not a recovery; investment, normally driven by profit rates, is lagging and not leading economic activity; the crisis is global but debate involves sub-global levels; and public safety-nets, which have helped to stabilize national income, are being cut. These paradoxes can be traced, in part, to the impact of the “truce” that followed the Keynesian-Monetarist controversy on economists’ ideas about policy activism. This implicit “truce” has removed activist macro policy from discussion, and shifted attention toward institutions as mechanisms for solving game-theoretic coordination problems. Policy activism then centers on how the “agents” (nations) can achieve optimal use of their available resources (or optimal access to resources) at the global level; and this involves creating and fine-tuning compacts – neoliberal mechanism designs – that can capture rents and attract globally mobile capital. This approach leads economists to see the key problem in the current global crisis as fixing broken neoliberal mechanisms. However, a global economy dominated by mechanisms that feed on aggregate demand without generating it faces the prospect of stagnation or collapse.

**Key words:** Neoliberal mechanism design, Policy activism, Keynesian-Monetarist controversy, Globalization, Capital mobility, Hyman Minsky, Bradford De Long.

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*“On one side, the re-emergence of powers such as China and India is creating a more competitive, multipolar system. These rising nations, understandably, want to assert their own interests after two centuries of western hegemony. On the other side, the fact of closer interdependence deprives even the US of the capacity to act both effectively and independently.”*

*“The result is a contest between the centrifugal impulse inherent in a multipolar system, and the centripetal force of interdependence.”*

*Philip Stephens (2009).*

The current global context poses several paradoxes. First, the recovery from the deep 2009 recession was not a recovery. Massive fiscal-policy and financial-system interventions restored positive (if weak) GDP growth and rescued profits; but less a year into recovery, growth has slowed in the US, the UK, and the Eurozone, and employment problems are deepening. Figure 1 demonstrates this paradox for the US economy: profits recovered fully after 2009 while real growth turned downward.

Second, since profit rates were restored, and profitability normally drives investment spending, robust investment should have followed the public-sector interventions and spurred recovery. But post-crisis, investment spending never recovered. Figure 2 shows that three US net-investment indices are all below 2005 levels. Whether depressed real-estate markets, high private-sector liquidity preference, or weak consumer demand is to blame, sluggish investment is dragging down growth, not leading it.

Third, the current situation is a *global* growth crisis, on the scale of the 1970s or even 1930s; but meaningful debates about “what is to be done” are occurring at sub-global levels. Efforts to coordinate tighter bank regulations in the UK, US, and Eurozone have come to nothing, as have efforts to revive the Doha Round of multi-lateral trade agreements and post-crisis G-20 meetings. Fourth, government policies that most neutralized the impacts of crisis in 2009 were *pre-neoliberal* “safety net” and family-support policies, notably in global North countries (France and Germany) formerly termed “Euro-sclerotic.” But as recession beckons anew in the global North, politicians talk only about further safety-net cuts. Only global-South nations are making advances in family and worker support.

Taken together, these paradoxes are combining to push global North economies, if not the world as a whole, toward renewed stagnation or worse. This essay argues that these paradoxes and the anemic response to the recent disaster-scenario can be traced, in part, to the peculiar evolution of economists’ ideas about policy activism in the Neoliberal era. The decades-old Keynesian-Monetarist controversy was succeeded by a forced “truce.” Under this truce, macro policy was reimagined as a sort of laser surgery: precise, centering on calibrated targets, and largely invisible. For the first two decades of this era, the global macroeconomy played along, serving up a “Great Moderation” from which extreme events and shifts were apparently banished (at least in the global North).

But something went terribly wrong. Wrenching shocks rooted in financial dysfunction did not become an impossibility just because economists could no longer imagine that they might happen. But while we remain in Hyman Minsky’s world, we no longer have access to Minsky’s solutions: the global economy is no longer dominated by large macroeconomies with the capacity and will to intervene as necessary to stabilize prices and national income levels.

We are instead in a global neoliberal order dominated by the free flow – or the threat or promise of the free flow – of capital across borders. In this order, governmental powers have been devoted to deregulation and to the creation and maintenance of supra-national compacts. These compacts reflect mechanism design solutions to the conditions of the neoliberal world. As such, they have compromised nations’ capacities to freely manage macroeconomic policy, in favor of rules that acquiesce to the core prerogatives of the neoliberal era – the freedom of action of capital and finance. The most elaborate of the neoliberal mechanisms, the Eurozone, requires their member governments to reinforce the integrity of the zone’s supranational fiscal discipline. This is interpreted as sending reassuring signals to mobile global capital and facilitating trade-led growth.

So strong is the pull of these mechanisms that even countries not bound by such pacts are inventing self-imposed limits on their freedom of policy movement. Consequently, even faced with global depression, national leaders either are unable or unwilling to use crisis-resolution tools that have worked successfully in past macroeconomic downturns. This hesitation is encouraged by New Classical economists' denial that government policy was ever effective in such circumstances. The result is an erasure of policy memory, precisely when the lessons of 1930s and 1950s Keynesian policy are needed most.

## 1. Following Brad De Long through the Looking Glass and Back

Understanding what has gone wrong in economic-policy thinking can be approached by dissecting Bradford J. De Long's recent statement that economics – that is, highly-ranked US departments of economics – needs another Minsky. This UC Berkeley economist is among the small group of prominent mainstream economists who has traced the dramatic subprime-securities-fueled plunge of US economic growth, in part, to the hermetic, inward-looking character of most contemporary economic theory. Of central interest for our purpose is both what De Long sees, and what he does not see.

Most famously, Paul Krugman's 2009 *New York Times Magazine* article decried the domination of contemporary macroeconomics by real-business-cycle, full-optimization models, with policy implications that pertain to equilibrium worlds instead of the world we live in. He also acknowledged that the New Keynesian economics that arose in response to these models had become "Panglossian," in large part because they were committed to an efficient-market view of financial markets that precluded bubbles (and hence the current crisis, in his view). He argued that "a more or less Keynesian" approach to macroeconomics, and argued for renewed attention to credit market models that leave room for "dysfunctional finance," along lines pioneered by Ben Bernanke and Mark Gertler (1989), Nobuhiro Kiyotaki and John Moore (1997), and Andrei Shleifer and Robert W. Vishny (1997). Krugman's article drew a ferocious response from John Cochrane (2009). DeLong's 2010 critique went deeper than did Krugman in his critique of economic theory *per se*:

*"One of the dirty secrets of economics is that there is no such thing as 'economic theory.' There is simply no set of bedrock principles on which one can base calculations that illuminate real-world economic outcomes. We should bear in mind this constraint on economic knowledge as the global drive for fiscal austerity shifts into top gear.*

*Unlike economists, biologists, for example, know that every cell functions according to instructions for protein synthesis encoded in its DNA. ... Physicists start with the four fundamental forces of nature.*

*Economists have none of that. The 'economic principles' underpinning their theories are a fraud – not fundamental truths but mere knobs that are twiddled and tuned so that the 'right' conclusions come out of the analysis."*

De Long went on to argue that one set of economists uses their prior political beliefs to "twaddle and tune" until conclusions are reached that please their political allies, while the other type "takes the carcass of history, throws it into the pot, turns up the heat, and boils it down, hoping that the bones will yield lessons and suggest

principles to guide our civilization's voters, bureaucrats, and politicians as they slouch toward utopia." Clearly, De Long sees himself in the second camp – a proponent of economic history against economic theory. However, this iconoclastic thinker shifts his perspective subtly in his 2011 essay, "The Crisis of Economics":

*"The fact is that we need fewer efficient markets theorists and more people who work on microstructure, limits to arbitrage, and cognitive biases. We need fewer equilibrium business-cycle theorists and more old-fashioned Keynesians and monetarists. We need more monetary historians and historians of economic thought and fewer model-builders. We need more Eichengreens, Shillers, Akerlofs, Reinharts, and Rogoffs—not to mention a Kindleberger, Minsky, or Bagehot."* (De Long 2011, p. 2).

De Long here advocates "old-fashioned" macroeconomics, "work on microstructure" along the lines that Krugman suggested, and even another Minsky. But will this *cri de coeur* be answered? Economics needs another economist who, like Minsky, can describe the latent chaos in capitalism's financial arrangements without flinching; and who, like Minsky, can imagine ways of surpassing this chaos when it bursts forth. De Long is one of several economists and commentators who have acclaimed a "Minsky moment" (John Cassidy 2008) and affirmed that "Minsky was right" (Martin Wolf 2008) about the endogenous occurrence of financial crises in capitalist economies. Yet Minsky's policy prescriptions for resolving such crises have largely failed. How can this late economist's words be simultaneously prophetic and insufficient?

To understand this further paradox, we must carefully examine contrarian De Long's comments: for while they contain the seeds of rebellion against New Classical economics, they also conform with the broader arc of mainstream thinking. De Long wants to widen it; but as it exists now, this arc of conformity rules Minsky's way of thinking about financial and macroeconomic dynamics out of bounds. Minsky's analytical frame was developed at a time when the US macroeconomic policy interventions reflected the confidence and reach (if also the self-absorption and arrogance) of the world's hegemon. The frame is now so unimaginable for mainstream practitioners that they can absorb only small fragments (indeed, "moments") of his ideas.

## **2. Why has Minsky's Solution not been Used to Resolve the Crisis of Minsky's Moment?**

Minsky (1986) is famous for many reasons in the tribe of economists, one being his knack for capturing key ideas in apt phrases. Among the most celebrated of these phrases are "stability is destabilizing" and "big government". Jan Kregel (2008) later added "big bank" to this list. The "destabilizing" idea implies that any tranquil state of steady growth in capitalism will be undermined as competition in the capitalist accumulation process leads firms and financial funds to build their debt-financed asset positions until they exceed a breaking point. At that point, Minsky assured us that "big bank" – lender of last resort intervention (that is, limitless liquidity provision as needed) – would stabilize the financial markets and banks. Then "big government" – counter-cyclical government expenditure, including safety-net and investment-related spending – would stabilize the real sector.

This was the basis of Minsky's assurances that despite the susceptibility of economies with complex financial systems to financial instability, capitalist dynamics could be tamed. And while Federal Reserve Board members and economists had scarcely acknowledged Minsky's ideas, their reactions when business-cycle downturns threatened financial disorder largely followed his "big bank/big government" game plan. And among academic economists, Minsky's warnings about capitalism's inherent volatility due to out-of-control financial dynamics were almost universally ignored.

The 2007-2008 financial meltdown changed all that. As economists belatedly discovered his ideas, Minsky became a household name, and the "Minsky moment," a Wikipedia entry. It seemed initially that Minsky's crisis-period policy prescriptions would work: many countries in the world economy returned to positive economic growth rates at the end of 2009, after six recession quarters. However, recovery stalled. While a 1930s-style debt-deflation was avoided, public interventions did not regenerate confidence or reduce uncertainty. At the macro level, the very counter-cyclical actions that government took to offset declining aggregate demand created public-debt-to-income levels that undercut financial-sector "confidence." At the micro level, most banks' net income flows have recovered, but lending has not, blocking access to the credit flows on which small businesses depend. Larger non-financial enterprises with their own access to direct credit markets, for their part, are generally sitting on cash reserves rather than investing.

This contemporary policy debate centers on whether the fiscal stimulus and monetary policy steps undertaken in global North nations have been sufficient, and should be rekindled. On one side, James K. Galbraith and Dean Baker, among others, urge more aggressive Keynesian stimulus efforts, arguing that the initial stimulus was too timid; it appeased Wall Street and conservative political interests but did not overcome the economy's deep displacement and malaise. Others urged caution; as World Bank President Robert Zoellick (2009) has put it, Milton Friedman should be remembered along with John Maynard Keynes, for the money has to go somewhere. This notion that an unpayable financial bill confronts nation states has ripened, with time, into a conscious UK policy of government downsizing, and into a full-fledged attack by conservative US leaders on the foundations of the welfare state.

Attempts to split the difference between these views – such as Wolf's arguments that we need fiscal restraint, but not yet (for example, Wolf 2011) – have provided no rallying point for compromise. Debate has shifted from the size of any stimulus to controversy over the very size and purposes of government. Meanwhile, the Southern members of the Eurozone bind themselves into ever tighter contractions; and political leaders elsewhere offer sacrifices to the gods of fiscal restraint, hoping that the angel of financial-market panic will pass over without marking their doors.

### **3. From the Keynesian-Monetarist Divide to the New-Keynesian "Truce"**

Some part of the ongoing financial-market panic is self-sustaining. As Markus K. Brunnermeier and Stefan Nagel (2004) have shown, price volatility spurred by economic "news" provides market opportunities for bubble-riding speculators. Market

gyrations provide red earnings meat for the take-no-prisoners world of financial speculators whose appetites became enlarged due to overgorging in the subprime years.

The increasing polarization of public commentary – the source of much of this “news” – has been paralleled by the sharp disagreements among economists at prestigious departments, noted above. This end of polite discourse in economics may signal the end of the uneasy two-decade truce over macroeconomic policy. Whether it does is critically important: for the uneasy consensus reached under this truce precludes the sort of macroeconomic vision that Minsky’s work embodies.

What consensus is there among protagonists who have fundamental disagreements about the roles of government and markets in organizing contemporary social life? And why does it rule out the broader visions of Minsky or of (in De Long’s words) other “old-fashioned” macroeconomists?

The Keynesian-Monetarist debate over macroeconomic policy dominated policy discourse from the 1950s through the middle-1970s. It centered on whether fiscal or monetary policy was more effective in stabilizing economic outcomes, and on the efficacy of demand stimulus. Those economists who advocated Keynesian macro-policies but subscribed to the broader flow of Walrasian or neo-Walrasian theory – based as it is on “invisible hand” theorems – had to explain how equilibrium-generating market forces coexisted with the need for activist macro-policy. James Tobin put it as follows: “The economy is in perpetual sectoral disequilibrium even when it has settled into a stochastic macro-equilibrium.” (Tobin 1972, p. 11). To maintain their bona-fides as mainstream practitioners, all the leading proponents of Keynesian policy intervention (Paul Samuelson, Tobin, Alan Blinder, among others) had to walk an ambiguous analytical line of the sort that Tobin’s phrase indicates.

This purposeful ambiguity provided the opening for innovators such as Robert E. Lucas and Robert Barro to introduce equilibrium concepts appealing to microefficiency and to economic rationality into the heart of macroeconomic theory. These New Classics subjected the Keynesians’ analytically-convenient or empirically-pragmatic assumptions to withering questioning. Further, their critiques received steadily growing empirical support, as Keynesian macroeconomic models calibrated on 1950s/1960s data misbehaved badly in explaining 1970s and 1980s patterns.

The upshot was a forced consensus that activist macroeconomic policy was markedly less powerful in affecting market outcomes than mechanical Keynesian-consensus models had asserted. This truce was always uneasy. When the New Classics accused the Keynesian models of being ad hoc (adaptive, not rational expectations), a dilemma was posed: either admit that the market equilibrium was not the conceptual entry point for Keynesian insights or surrender all claims to having distinct policy claims.

Initially, some Keynesians tried to avoid the terms of this dilemma by challenging New Classical economics on empirical grounds. An example will serve as an illustration. In a Brookings Panel paper, De Long and Lawrence H. Summers (1988) used extensive empirical analysis to argue that active macroeconomic policy has led to the more stable and positive rates of growth experienced by the US economy since

the Great Depression. Both commentators, while sympathetic to Keynesian ideas, found this argument unconvincing, largely because it was not linked to a model explaining the links from micro mechanisms to these outcomes. Gregory N. Mankiw (1988) noted dismissively that the authors had neither defined nor defended a specific hypothesis. Christina Romer wrote, “The authors seem content to say that since policy could have caused it, we should conclude that policy was effective. This argument, I’m afraid, will never convince anyone who does not already believe.” (Romer 1988, p. 85).

In effect, the New Classical had played an analytical trump card, which forced mainstream Keynesians to disown several generations of models built on a boot-strap basis using pragmatic “real world” assumptions. These Keynesians didn’t like the shift from a “reality-based” to a “model-based” analytical devices: but the price for fighting it – exclusion from the discipline’s commanding heights – was too high. Provisional Keynesian devices for rationalizing activist macroeconomic policy, such as Tobin’s assertion of “perpetual sectoral disequilibrium,” could not survive New Classical’s insistence that economic assertions had to be based on analytical features of equilibrium environments.

### The Microfoundational Turn and the 1980 Minnesota Fed Conference

The suddenness of this shift is documented dramatically in the proceedings of the 1980 Minnesota Federal Reserve conference *Models of Monetary Economics* (John H. Kareken and Neil Wallace 1980). At the conference’s core were several New Classical papers that approached money and credit by considering what features of analytical transaction environments might make agents value and use them. Two lions of Keynesian economics were asked to comment. Tobin reacted to Wallace’s chapter on fiat money in overlapping-generations models by observing that the “fiat store of value” in the model is called “money, but it bears little resemblance to the money ... that economists and policymakers argue about.” He acidly asked, “Isn’t it slightly ridiculous to identify as money the asset that the typical agent of the model would hold for an average of 25 years...?” (Tobin 1980, pp. 83-84). Frank Hahn, in turn, objected in a similar spirit:

*“... there are some general questions you can ask yourself, such as, How does money ever come to be used? How do financial institutions come to be what they are? But I don’t believe that is even the best understanding strategy. And it is quite dangerous.”*  
*“The way I would like to proceed is slightly different. That is to start off with all the monetary institutions and ask, What would have to be the case if these institutions are to survive? Now that is not the same question of how something comes to be what it is; it is a question of how something remains what it is.”* (Hahn 1980, p. 161).

David Cass and Karl Shell (1980) defended the new approach by noting that it was “fundamentally dynamic” and “genuinely disaggregative” (Cass and Shell 1980, p. 253); indeed, these theorists position themselves against the “almost total agnosticism implicit in the excessive demand characterizations pioneered by Hugo Sonnenschein” (*ibid.*, p. 257).

Cass and Shell’s reference here is to the Sonnenschein-Mantel-Debreu Theorem. As Abu Turab S. Rizvi (2005) explicates in an overview essay, this theorem

demonstrates that a wide range of functions can underlie a well-behaved excess-demand function of the sort that undergirds aggregate equilibrium models of the economy. In effect, Sonnenschein's "characterizations" break the link between microeconomic models of how actual agents (even in optimizing worlds) behave and interact, on one hand, and aggregate macroeconomic models, on the other. Macroeconomists who want to work with, say, simplified intertemporal equilibrium representations of aggregate economies are freed from any need to explain what microprocesses could generate whatever outcomes they derive.

Randall Wright, in a retrospective assessment two decades later, observed that "*Models of Monetary Economies* set the agenda and the terms of discussion for monetary economics over the next quarter century." (Wright 2005, p. 2). This is true insofar as attention turned in monetary economics to the features of analytical worlds – that is, the specific deviations from Walrasian general equilibrium (WGE) that could explain the demand for money, the existence of loan markets, or for other financial phenomena. WGE is an intellectual sink in neoclassical economic theory: the benchmark used to explain any institutions that appear in really-existing economies (Dymski 2011a). In a full-information world of costless transactions and precoordination, no economic institutions would evidently be necessary. Thus explaining anything from banks to secondary loan markets depends in this approach on specifying how optimizing agents might create such institutions in second-best worlds, as mechanisms for improving their welfare *ex-post*.

Such explanations involve the construction of microfoundations – what individual agents might do to optimize when information is imperfect and contracts are not self-enforcing. Their possible actions include the construction of institutions as mechanisms for reducing the impact of information problems on incentive compatibility, efficiency, and quality-control. So contrary to Hahn's hopes, institutions are explained in terms of "how something comes to be what it is."

#### **4. New Keynesian Economics and the Embrace of Mechanism-Based Explanation**

New Keynesian Economics represents an efficient solution to the dilemma posed for mainstream Keynesians by the rise of New Classical economics. Its proponents' core strategy for defending government policy interventions or arrangements (such as long-term wage contracts) that deviate from WGE optima was to explain these phenomena as second-best responses to one or another informational or transaction-cost problem.

Focusing on the microfoundational implications of small deviations from competitive market equilibria permitted Keynesians to share the same entry point as their New Classical critics. When this entry point was accompanied by strong assumptions about market equilibration, the New Classical theoretical conclusion – forcefully shown by Lucas (1987) – that government policy could have no systematic – and certainly no welfare-improving – effect on aggregate output and employment was unrefutable. What remained possible given this entry point was to demonstrate that simple informational or transactions-cost deviations from the conditions required

for first-best equilibrium outcomes could alter optimizing behavior and the play of market forces, opening the possibility of policy actions and institutional developments that could improve on autonomous market equilibria.

This solution admitted the ascendancy of efficient-market proponents, who reaffirmed the core idea that resource exchange guided solely by decentralized markets can in principal achieve socially optimal allocations. As the turbulent early 1980s gave way to the years of the “great moderation” in business cycles, this seemed a small price to pay. For two decades, it seemed that macroeconomic policy, tamed of its former Keynesian ambitions, was delivering smoothly reliable growth – at least, in global-North nations. And meanwhile a modest venue for policy activism was retained: the creation or fine-tuning of market structures that reduce losses from informational problems or transaction costs.

So while this forced “truce” required that active fiscal policy be largely disavowed, policy activism did not disappear: it was transformed. Many policy experiments were undertaken; these ranged from the creation of bi- and multi-lateral trading consortia to investment treaties to the creation of the Eurozone. These did not draw the wrath of the New Classicalists who had captured high macroeconomic theory. For one thing, these policy experiments represented a clear shift away from efforts to affect output and employment levels by managing aggregate demand. For another, as explored below, many key policy experiments in these years conformed closely with the Walrasian premises of the New Classical model itself. As such, these policy experiments extended the reach and scope of the logic of New Classical Economics well beyond the notion of using simple fixed rules to manage macroeconomies.

### **A Strategic Role for Game-Theoretic Models**

The reshaping of policy activism by economists who remained mainstream practitioners was facilitated by the increasing use of game theory as an analytical language in economics. Game theory provided analytically tractable ways of understanding how markets, left to their own devices, could malfunction. A key distinction was made between principals – those who control scarce resources and who must hire the services of others to fully exploit the income-generating potential of those resources – and agents – those who lack resources and instead survive by selling their labor services to others.

Fundamental analytical work on the economics of incomplete markets had revealed that autonomous market forces would not achieve determinate, optimal outcomes when agents held informational advantages over principals. To the contrary: if principals could not accurately read agent intentions, or differentiate competent from incompetent agents, then using price signals to select among agents is likely to lead to resource misallocation. And markets malfunction primarily because agents can use their informational advantages to cheat or mislead principals.

The notion of informational problems as the root problem of market dysfunctionality was immensely attractive to economists, for several reasons. First, the publication of the paradigm-shaping papers of this theoretical approach coincided with the rise of the information age and of the network society (Manuel Castells 1996). Second, the fingers of blame are pointed at the resource-seeking economic units

(agents), not at resource-dispensing units (principals). Attention focused on micro-economic coordination mechanisms, not on larger questions of the architecture of aggregate economic flows. While practitioners of other social sciences were engaged in conversations about the systemic foibles of neoliberalism and its “race to the bottom”, economists’ attention narrowed to how agents had to adjust to a more competitive global environment. Third, the tools in question were remarkably plastic – principal-agent analyses were used to describe the moves and countermoves of nation-states and bank lenders, of managers and boards of directors, and of villagers. Fourth, this focus appealed to many economists’ built-in bias toward believing that optimal means of distributing scarce resources can be found if the incentives are right.

The maturation of game-theoretic models of asymmetric information provided a new terrain of exploration for this last bias. International economics, development economics, and industrial organization were all completely reinvented as fields of application for information-centered game theory. The terms “mechanisms” and “mechanism design” were adopted to explain the new approach to policy questions. Roger B. Myerson (2008) puts it as follows in his entry for the Palgrave Dictionary:

*“A mechanism is a specification of how economic decisions are determined as a function of the information that is known by the individuals in the economy. Mechanism theory shows that incentive constraints should be considered coequally with resource constraints in the formulation of the economic problem. ... Mechanism design is the fundamental mathematical methodology for analysing economic efficiency subject to incentive constraints.”*

These definitions are purposely general. Our interest here is in the application of these methods to macro-scale crises. Two simultaneous financial crises at the dawn of the neoliberal era provided opportunities to apply these ideas: the Latin American debt crisis and the US savings-and-loan (thrift) crisis (Dymski 2011b, 2011c). In both cases, analysis using asymmetric information centered on moral hazard problems, not on adverse selection. In the Latin American debt crisis, the key problem was borrower countries’ lack of repayment effort. Money-center banks’ excessive portfolios of Latin American loans also was traced to inadequate controls by owners over risk-taking managers. In the thrift crisis, thrift management’s incentives to take on overly-risky projects was also the key issue. The depositors who provided most of thrifts’ loanable funds – and who were thus the principals, for whom thrift managers were working as agents – were protected by deposit insurance (and were thus risk-indifferent). Further, thrifts could choose their regulators, since they could charter themselves at the federal or state level. Mechanism designs were needed, then, to induce repayment, and to rein in managers. Insuring repayment meant creating sufficiently high penalties for non-payment. Thrift managers could be reined in by eliminating deposit insurance, eliminating “two-tier” thrift regulation, or making thrift managers more accountable to owners’ interests (this also applied to the managers of megabanks with excessive lending in Latin America).

Two features of these analyses bear emphasis here. First, a core assumption is that principals control a scarce resource: lenders, the supply of credit; depositors, loanable funds. In a proper mechanism design, those controlling scarce resources should have the ability to withhold them from agents; crisis arises precisely when

this control is lost. Second, when principal-agent relationships malfunction, restoring orderly outcomes means either imposing costs on, or providing incentives to, misperforming agents. Using Myerson's terminology, agents' incentive constraints complicate the distribution of rewards and penalties based on resource ownership. Means must be found to neutralize the positional power that information asymmetry distributes to agents. While available mechanism designs are costly, these costs are far less than the zero-sum losses that principals would otherwise experience.

These ideas about mechanism designs were applied asymmetrically to these two crises. Latin American borrower countries were in fact disciplined: austerity regimes were imposed, financial systems were opened, import-controls weakened, and planning and development-finance agencies were eliminated. The US megabank and thrift crises were resolved quite differently. A few fraudulent bankers went to prison. But most of the large failing banks and thrifts were acquired by other, still larger banks – and the deregulation process continued. The Basel I agreements of December 1987 established capital-asset standards as guidelines for large banks. But no general effort to align risk-bearing with risk-taking was undertaken (Dymski 2011d).

These resolutions illustrate four other important features of these applications of mechanism design. First, differences in nation-states' power dictated the strictness of the terms for whatever mechanisms were used, as well as how strictly these arrangements were policed: the more powerful a principal's nation-state, the lighter and more voluntary the terms. Second, some mechanisms were imposed by force (IMF austerity packages), while others were voluntary, agreed among members of a club (Basel I). Third, the situations generating these crises involved multi-level (nested) principal-agent problems; but the complications to which these multi-level aspects gave rise were ignored. Fourth, spillover effects were completely ignored. There was no attention to whether austerity macroeconomic packages facilitating Latin American nations' repayment of debt would impose collateral costs on these nation's overall employment, wage, and growth levels – or, for that matter, on US or European growth rates. These mechanisms focused on enforcing the rights of resource owners – in effect, on protecting the economy's supply side. Demand-side considerations were left out of the discussion.

## 5. Neoliberal Mechanism Designs

This brings us to *neoliberal* mechanism designs – that is, mechanism designs that respond to the specific conditions of the neoliberal era. Three conditions are especially important. First, this era has been characterized by increasingly unchecked corporate power, ranging from “race to the bottom” relocations of production facilities to financial firms' spectacular growth and adventurous risk-taking. Second, the neoliberal era has been characterized by the reduced power of national states vis-à-vis market forces. Specifically, nation-states in the neoliberal era have been unable to establish rules for cross-border economic flows; they have had difficulty in stabilizing income and expenditure flows at levels insuring that residents within their borders have secure and broadly-prosperous lives; and they have been unable to support public services at levels that improve human welfare.

A third defining feature of the neoliberal era is the steady decline in the United States' leadership. The US reshaped much of the world economy in its own image and for its own prosperity in the post-War period (Yanis Varoufakis 2011). In particular, the US-dollar-backed Bretton Woods system locked large areas of the world into a stable trading/exchange system and left very limited possibilities for financial speculation. The Federal Reserve's lender-of-last-resort capacities were unchallenged. Over the ensuing decades, this hegemonic position gradually slipped. The neoliberal era has been at best a period of "post-hegemonic hegemony" (Dymski 2002): the US dollar has remained the global currency of choice, but the US can no longer link the dollar to gold, maintain open Polanyian markets, or dictate global geo-political developments. Both nation-states and the firms and individuals within nation-states have had to adjust to the de-facto rules of an increasingly leaderless global system.

In effect, the decline of models which assume governmental decisions can definitively shape macroeconomic outcomes has paralleled events. The older Keynesian policy activism that was attacked so efficiently by New Classical Economics involved models in which the state, even when structurally constrained, has a clear field of policy action for affecting real outcomes. These sorts of models, which constituted the core of the neo-Keynesian synthesis, were steadily undermined in the 1970s and 1980s. These years saw reduced space for national regulation of financial markets, reduced union power, freer global movement of capital and credit, and the rise of new centers of national power. In the neoliberal age not even powerful nation-states can make moves without considering counter-moves. Thus, beginning with models in which players mutually influence one another's outcomes provides a grammar for the policy choices and constraints of nations under neoliberalism.

### **Locational Arbitrage, Hedging, and Speculation**

While the neoliberal world lacks a hegemon of unchallenged strength, it remains comprised of stronger and weaker nations and regional zones. Economic resources broadly conceived - product markets, non-renewable resources, final-goods demand, and sources of capital and credit, to name only several - were all unevenly distributed across global economic space after the Bretton Woods system broke down: each resource was spatially-differentiated, with areas of plenty and scarcity. Players within this spatially-fragmented world order are stronger insofar as they control the use of, or access to, scarce resources that consistently command economic rents. However, the three most important categories of global players - nation-states, multi-national corporations, and financial intermediaries - have different impulses vis-à-vis this uneven map. These players' dominant strategies involve the defense of fixed points of multi-dimensional resource concentration; leverage-based hedging and speculation; and offensive strategies based on locational flexibility. We take these in reverse order.

Nation-states with concentrations of multiple economic resources as defined above try to control access to their markets. Nation-states without them - in conjunction with "footloose" corporations - try to capture rents by accessing national markets with prosperous consumers. The latter strategies, facilitated by the Thatcher and Reagan "revolutions," led to the rise of the global factory in the 1980s.

The neoclassical mechanism design favored by global corporations, in league with resource-poor (and low-wage) nation-states or regions, is one of generalized arbitrage. The original meaning of arbitrage was of the exploitation of implicit price differences that appeared momentarily at a point in time. The profit on the transactions involved, which centered around spot-market financial transactions, was locked in instantly. So this arbitrage was riskless, and would occur if the return to the play exceeded the transaction cost. This no longer applies. Now, arbitrage takes place across time as well in space, in production as well as finance.

In the evolving global terrain of split production and consumption opportunities, corporations' former accumulation strategies – centered on longer-term investment in plant, capacity, and local supplier subsystems – became outmoded: through-time commitments reduce flexibility in rapidly shifting playing fields. The strategic focus shifts to arbitrage, across many fronts: in effect, these players arbitrage exchange rates; they arbitrage workers' wages; they arbitrage rates of return on financial instruments; and they value above all else the ability to unwind positions rapidly. Liquidity rules, always in search of price differentials that can be exploited across time and across space.

These attack-based arbitrage strategies valorized as never before the problem of protecting the value of wealth assets. Suppose a factory is located in a lower-income nation that has few tools for controlling the value of its currency or the sustainability of its advantages as a production site; and suppose this factory sells goods to a resource-rich space whose residents have systematically high levels of income and wealth. On one hand, the corporation operating this factory needs to hedge its currency and product-line exposure. On the other, the residents of the privileged space to which this factory sells will have an ever-more-profound need to protect the value of their previously accumulated wealth. In effect, the more low-wage global factories cut into the production levels of resource-rich spaces, the more hedging demand there is. And just as arbitrage now operates two-dimensionally – through space and in time – hedging needs have become two-dimensional as well. A financial intermediary located in a resource-rich zone, for example, may value the ability to delink itself from credit contracts it has originated; and whichever financial intermediary buys those contracts may want down-side insurance.

The increased value assigned to hedging creates new financial strategic possibilities, which Minsky (1996) termed “money-market capitalism” in his later work. On one hand, any nation-state with a stable, reliable financial system for storing, retaining, investing, and risking wealth can achieve gains in jobs and wealth, insofar as its large financial intermediaries are able to meet the increased demand for hedging. These gains will be multiplied if this hedging is accompanied by zero-sum risk-taking by asset-owners willing to take bets on states of the world. These gains will be multiplied still further insofar as the players taking state-of-the-world bets linked to hedging markets are able to leverage their asset positions by accessing low-cost liquidity markets. And as noted above, heightened volatility in prices or in relationships among nation-states is good for business: it generates more hedging demand and provides more fuel for zero-sum bets (provided, of course, that this position-taking does not undercut the stability of the financial system).

## Defending Fixed-Points of Concentrated Resources in a Post-Hegemonic World

Ranged against these attack- and speculation-based strategies are nation-states and firms that seek to defend fixed-points of concentrated resources. Building these defenses involves solving nested principal-agent problems. For example, a central bank is at the apex of a national financial system. Suppose for simplicity that its motivation is to insure that the banks in this system make productive loans, whose volume does not create excessive inflationary pressure. As Charles A. Goodhart (1988) points out, the mechanism design problem here is that each bank has an incentive to lend more than its proportional share. If the banking system is run as a “club” – with one bank elected as the “central bank” by other members – the banking system will be subject to failure due to “free rider” problems. The only stable solution is to give the central bank the authority to punish member banks that lend excessively. That is, a “club” which members are free to leave will eventually fail: either it will fall prey to “free riding,” or its members will resign when its central-bank attempts to impose discipline.

The problem for “clubs” is then enforceability. In the absence of this, club members will maintain exit options that protect their right to withdraw. This is, more broadly, the principal flaw of mechanism designs that seek to protect resource-rich spaces in a post-hegemonic world: there is no one player that can enforce rules and prohibit defections. There is, in the end, no one nation-state strong enough to make and enforce rules that all other players must follow. As a consequence, everyone-for-herself behavior becomes pervasive.

The US in the 1950s and 1960s had the capacity to maintain discipline in trading rules and in financial exchanges, and it expanded its influence via macroeconomic policies and special arrangements (the Marshall Plan) which increased purchasing power outside the boundaries of the US. The conditions permitting this – including the Cold War – have all but disappeared. One signal is the failure of the Doha Round of the World Trade Organization. But an equally profound signal was the signing of the North American Free Trade Agreement (NAFTA) in 1992.

## 6. NAFTA and the EU as Neoliberal Mechanism Designs

NAFTA is a quintessential neoliberal mechanism design. Its premises are entirely neoliberal: the participant countries (the US, Mexico, Canada) exist in a world of mobile capital and corporations; and all three nations have limited capacity to maintain stable and prosperous macroeconomies autonomously. NAFTA’s “free trade” (zero tariff) clause created an incentive for the mobile corporations that are either based in the US or that trade to the US, to locate production facilities in Mexico, which is a low-wage hub (Robert A. Blecker 2003). NAFTA also required a uniform tariff and required member nations to disassemble all investment and trade rules that are more protective or stricter than in any other member nation. These clauses created a protected supra-national zone, with the purpose of providing Mexican, American, and Canadian companies and consumers with “club-member” advantages. Meanwhile, hundreds of thousands of jobs were lost in the US (Robert E. Scott 2003).

Overall, NAFTA has been a modified failure. Lost US jobs and wages served as a demonstration effect to prove the desirability of the NAFTA zone as a place to invest and build factories, especially in Mexico, with its lower wage levels. But the new Mexican jobs did not survive long. Further, NAFTA's mandate that all three nations agree on a common environmental policy did not succeed; nor did NAFTA mitigate undocumented Mexican workers' migration to the US (Gary C. Hufbauer and Jeffrey J. Schott 2005). The key problem was that the agreement lacked enforceability; each partner lacked the capacity to impose penalties that would induce the others to comply. It was, in the end, a club. No super-level authority was established to impose mandates on NAFTA's member states. No thought was given to the possibility of spillover losses (such as the loss of aggregate demand in the US economy from lost jobs replaced by lower-wage jobs in Mexico). And finally, no authority existed that could block nation-states elsewhere in the world (notably China) from negotiating trade/manufacturing deals that offered higher profits to multinational corporations that relocated from Mexico's maquiladora district. The US government no longer had sufficient hegemonic power to block Chinese manufacturing districts from outcompeting Mexico; and in any event, several successive US Presidential administrations sided with multinational companies and banks against US workers. And in the end, the failure of NAFTA to deliver on its economic promises, and to provide "safety net" support for redundant workers, has been one factor in the crisis of political legitimacy in the US and in Mexico.

Returning briefly to the 1980s Latin American crisis, note that the key mechanism design that emerged in response to that crisis, the Basel I agreement on bank-capital adequacy, had shortcomings similar to those of NAFTA. Basel I was an agreement among members of a club; no super-regulator existed that could punish excessively risky banks. Indeed, members of the club had incentives to bend the rules – to "free ride" – for their own advantage. Furthermore, this agreement did not block the emergence of unregulated competitors (hedge funds, private-equity funds, and so on) that could undercut Basel's purpose of controlling global financial risks. Basel II, whose implementation was not in place prior to the 2008 crisis, resolved none of these problems: to the contrary, it relied more heavily on self-monitoring by the megabanks it was established to police.

This brings us to the European Union (EU) and the Eurozone dilemma. Like NAFTA, the EU can be understood as a mechanism for attracting scarce capital. As an economic union, the core premise of the EU was to use a common currency (the Euro) to generate a large domestic market, encouraging investment and economic development throughout the Eurozone. And like NAFTA, the EU aspired to equalized tariff levels and investment rules. However, the EU's intention went dramatically beyond that of NAFTA, encompassing a broader project of European citizen rights and political union. The Euro was introduced by 17 of the 27 member states of the European Union on January 1, 1999. The agreed outlines of this broader project were embodied in the Treaty of Lisbon, which was signed by EU member states on December 13, 2007. The problem of achieving ratification of a broader European political union, however, remains unsolved.

The EU's economic mechanisms have all the flaws mentioned for NAFTA and Basel. The EU is a club – or, in the phrase of Galbraith (2011), a confederation. The 1992 Maastricht Treaty established various parameters for its members' macroeconomic ratios (price inflation and debt/GDP), with the idea of encouraging convergence prior to the launching of the common currency. Limits on participating nations' budgetary excesses were supposed to harmonize national growth rates. These rules guarded against fiscal "free riding" by member states; they also largely precluded Keynesian macroeconomic stimulus packages. The idea was that a disciplined Eurozone could achieve convergence via both the increased mobility of capital and investment and the proper management of national fiscal policy. Member states remained responsible for regulating their nationally-chartered banks, though under rules that provided for tit-for-tat deregulation of financial activity. The program of EU-wide financial deregulation aimed at opening up European nations' notoriously closed financial markets and, as with NAFTA, attracting global capital and building up Europe as a financial center.

These guidelines were put in place, and the Euro launched, with no clear punishments available in the case of non-compliance, and no super-authority to enforce the rules. The European Central Bank occupied the space of a central economic authority and insurer, but lacked the mandate and powers of national central banks. Further, no mechanism for fiscal transfers was put in place, apart from the encouragement of cross-border investment and the creation of a European Investment Bank (with provisions against moral hazard and "free riding" duly included in its charter). The idea was that in the short run, less robust economies such as Greece would depend on stimuli (investment, tourism, and so on) from stronger zone economies such as Germany. In the longer run, all nations should conform to the German example and develop export-led growth strategies.

As large portions of the Eurozone have come under pressure from declining revenues, escalating bad debts, and shrinking national incomes, the absence of a true European central bank and of any mechanism for emergency fiscal transfers has created all-but-untenable pressures on its weaker members. Relief is largely unavailable for Greece, Portugal, Spain, and Ireland: for these nations (and soon others?), austerity measures are the only available means of working out their problems. These measures will be hard to swallow, given the higher wages and "safety net" protections of residents in stronger EU economies.

This flawed and fragile design makes all members of the Union aware of the possibility of failure, and explains the reluctance of the stronger-economy members to agree to European bonds that will be the responsibility of a fiscal union that may soon no longer exist. Recent proposals to make the European Central Bank the defactor ministry of finance for Euro-zone member nations (Andrew Davis 2011), or to provide emergency fiscal resources to austerity-stricken member countries in exchange for guarantees of future fiscal prudence (Peter Spiegel 2011) only demonstrate the impossibility of maintaining a unified economic area without uniform political inclusion.

## 7. Limits of Policy Intervention in a World of Neoliberal Mechanism Designs

With the arrival of the neoliberal era and the defeat of Keynesian-consensus macroeconomics, a shift from “big government/big bank” solutions to more narrow policy approaches was all but inevitable. The maturation of information-intensive game theory provided the necessary intellectual basis. The resulting neoliberal mechanisms – which were aimed at either protecting resource-rich areas, gaining access to such areas, or hedging (and speculating on) risk differentials – provided provisional strategies in an increasingly leaderless world.

Prior to the current period of extended crisis, these devices offered gains for some portions of the populations of participating nations. However, they created an unstable map of global “winners” and “losers,” and very limited options for nations seeking more prosperity for their citizens. A weak player that seeks access to resources or markets can win only by being the low-cost bidder, competing thereafter with other low-cost bidders. A nation that wants bi-lateral trade arrangements or entry to a supra-national club (and its markets and resources), must open up its own markets. Stronger players in these clubs can demand concessions and break the rules with (relative) impunity. And all club members cooperate tentatively, preserving their escape options.

These mechanisms are not sustainable on their own terms. For one thing, generalized arbitrage strategies only work because of supports offered by non-neoliberal state supports. The mobility of production – the global factory – depends on the ability of states in off-shore labor-suppliers to provide for their population’s needs and security. Arbitrage through time in financial markets depends on the availability of deep, liquid markets. More generally, permitting self-interested players to use unregulated, hyper-optimized market mechanisms to extract short-term gains without considering the long-term sustainability of the economic units with whom they are trading is social suicide. For another thing, neoliberal mechanism designs are self-undermining. Global firms’ “regulatory arbitrage” and “bottom-feeding” games are premised precisely on their freedom to recontract and move away. Nations can off-load some risks and costs onto the external environment; but this only delays the day of reckoning.

Further, the limits to these devices have been exposed in the current global crisis, as noted above: asymmetries in national economic power among participants in these mechanisms; “club” arrangements without enforceability provisions; multi-level principal-agent relationships whose complications are not addressed; and inattention to spillovers. The possible breakup of the European Union is the most dramatic case, because it is the most ambitious of the neoliberal mechanism designs. But NAFTA has brought only economic stagnation and governmental near-collapse to Mexico; and the Basel mechanism for bank regulation is completely adrift.

### Unforgetting the Macrofoundations of the Neoliberal Crisis

This paper began by recounting some paradoxes of the global crisis: weak recovery without job growth; a profit surge without an investment surge; a global crisis with

debates and action only at subglobal levels; and a failure to recognize that only pre-neoliberal policies (safety-net, government guidance) have softened the blow. These paradoxes derived in part from governments' hesitant use of policy measures in the 2008-09 round of the crisis. Contrary to the New Classical prescription that nothing could (or should) be done, governments acted: they used temporary fiscal stimuli to stabilize (some) households' cash-flows; and they subsidized core financial institutions, promising to regulate them properly. But these initiatives came to little. The fiscal stimuli are now exhausted: stronger and more fully-recovered economies are unwilling to share their gains, and the weak cannot force action. And megabanks accepted their public bailouts without thanks; they continue to regard their ability to take unchecked zero-sum risks as a natural feature of economic globalization. And while some financial excesses have been reined in, the architecture of financial regulation remains fragmented and subject to manipulation and blackmail.

Now a global downturn threatens again, and policy-makers' willingness to bend the neoliberal rules regarding fiscal stimulus is far less than three years ago. Apparently, "big government" did not work. There is no meaningful discussion about how countries without safety nets can create them now. Instead, government aid has been used to support positionally-powerful corporate sectors (US, German autos) or to underwrite insolvent financial firms/sectors. In the US, elected officials call for reduced government spending levels; in Europe, national leaders announce large-scale budget cuts.

So what beckons instead is deepened use of available neoliberal mechanisms. Those countries that remain resource-rich (as defined above) again worry about protecting what they have; those who are resource-poor again try to arbitrage income flows; and financial funds and speculators seek new markets to conquer. These mechanisms will generate some success for some players; but they are largely zero-sum: the available tools are designed to capture and hold some portion of a set of economic transactions that will otherwise be undertaken elsewhere. That is, nations seeking to "win" will turn back to the very neoliberal mechanism designs – macro (Euro-zone, NAFTA) and micro (financial arbitrage and speculation) – that generated crisis in the first place. But if no alternative is on offer, the logic of contraction and zero-sum revenue-extraction will be inexorable; the paradoxes of the crisis will multiply.

Addressing these paradoxes will require a radical shift for those who wish to use government action to address the global crisis. The shift from macroeconomic policy stimulus to New Keynesian mechanism designs has to be reversed. Many well-intentioned analysts are working on the wrong thing for the wrong reasons. It is impossible to find ways to make the EU or NAFTA work – or work better – while accepting the premises of neoliberal policy intervention. The first step in rethinking failed neoliberal mechanism designs is to overturn the limits imposed on policy intervention in the neoliberal world. It makes sense to think of a European political project that leads to broad-based and shared economic prosperity from the Mediterranean to the Baltic Sea; it makes sense to think of a prosperous and more fully integrated North America. But either project, European Union or NAFTA, must be rethought as something other than a neoliberal design.

And economists engaged in this rethinking must throw off the self-imposed constraints of thinking of truly macroeconomic problems only within the neoclassical sink. Keynes' bold step of identifying Say's Law as the key constraint blocking the imagination of the neoclassical economists of his day must be renewed in our day. From a Keynesian perspective, neoliberal mechanism designs all have a common flaw: they never problematize the adequacy of aggregate demand, considered on its own. So mechanisms for aggregate-demand generation are outside the frame; only mechanisms for more efficient allocation of resources already assumed to have markets are imaginable in neoliberal worlds. The first step in destroying this world and its contractionary, zero-sum logic is to recognize that macroeconomics must be freed from the neoclassical sink – the magnetic pull of the WGE as the only authentic point of reference for serious economic discourse.

## 8. Conclusion

The quote by Stephens of the *Financial Times* placed at the beginning of this essay sees a world of centripetal and centrifugal forces, in which the global hegemon, the US, is rendered incapable of action, caught up in conflict with emerging global-South powers. The temptation to see events through nationalist-rivalry eyes is indeed becoming overwhelming. Zero-sum contests have losers, and losers' resentments, if multiplied, are eventually harvested.

But what Stephens attributes to great-powers-rivalry has another root: the shift of perspective within economics from an open embrace of large-scale Keynesian policy activism, to compliance with New Classical economics' macro-policy pessimism. As we have seen, New Keynesian economics opted out of this dead-end by defining a new terrain for policy activism: the creation of mechanism designs for improving income flows and welfare through more efficient use of available economic resources. The limits of this compromise were not so evident during the years of the Great Moderation, during which the US's current-account deficit provided a seemingly endless source of spillover-demand generation. But that epoch was ended by the subprime crisis, and now avoiding global stagnation or depression requires something more: members of the economics profession who are not afraid to argue for (and conduct research regarding) large-scale macroeconomic policy initiatives as the only means of overcoming the systemic consequences of a world of neoliberal mechanism designs.

In the current global crisis, Keynesian stimulus is needed, long-term investment is needed, growth with equality is needed. A public spending initiative that serves as a spillover generator, seeding renewed confidence and investment throughout the global North, is badly needed. But the ability of government authorities in virtually every nation is blocked or undermined in advance. The world economy has been cluttered, over the past 30 years, with neoliberal mechanisms that reinforce the prerogatives of mobile, partially regulated capital. And financial capital, even in its weakened post-crisis state, feels empowered to sit in judgment of governmental fiscal discipline and credibility. That governments without fiscal and monetary discipline should – and will – be punished by mobile capital and dog-eat-dog trade regimes is completely naturalized, for it is evident to all players that the gains to be had in the

world of neoliberal mechanism designs are zero-sum. This lesson has been so deeply understood by policy-makers that the IMF no longer has to wield its orthodox-policy stick. Governments have internalized the IMF's perspective.

So where, from here? We have traced out the parallels between the coming of the neoliberal world and the turn of New Keynesian economists toward a preoccupation with mechanism design. This was the space for policy intervention that remained after New Classics captured the realm of activist macroeconomic policy. Thus consigned to microfoundational realms, many New Keynesian interventions have focused on how principals and agents can defuse problems of incentive incompatibility and reach better second-best equilibria.

What New Keynesians have not done is to challenge the narrow confines within which this theorizing about policy activism unfolds: in particular, their models do not conceptualize aggregate demand as an autonomous element in economic outcomes. To do this will require overcoming the need to walk the analytical line between New Classical policy irrelevance and asymmetric-information based models. Taking this step means ending the three-decade-long macroeconomic "truce." De Long has shown the way by openly declaring his skepticism of New Classical and efficient-market approaches. Whether this will lead to a renewal of truly Keynesian ideas among macroeconomists is not clear at this juncture – though a depression can change many things. Nor is it clear whether even Keynesian thinking as bold as Minsky's can once again (as in the 1930s) rescue capitalism from its own excesses and limitations. But it is certain that the world of neoliberal mechanism designs, if not upended, promises only stagnation without end or collapse.

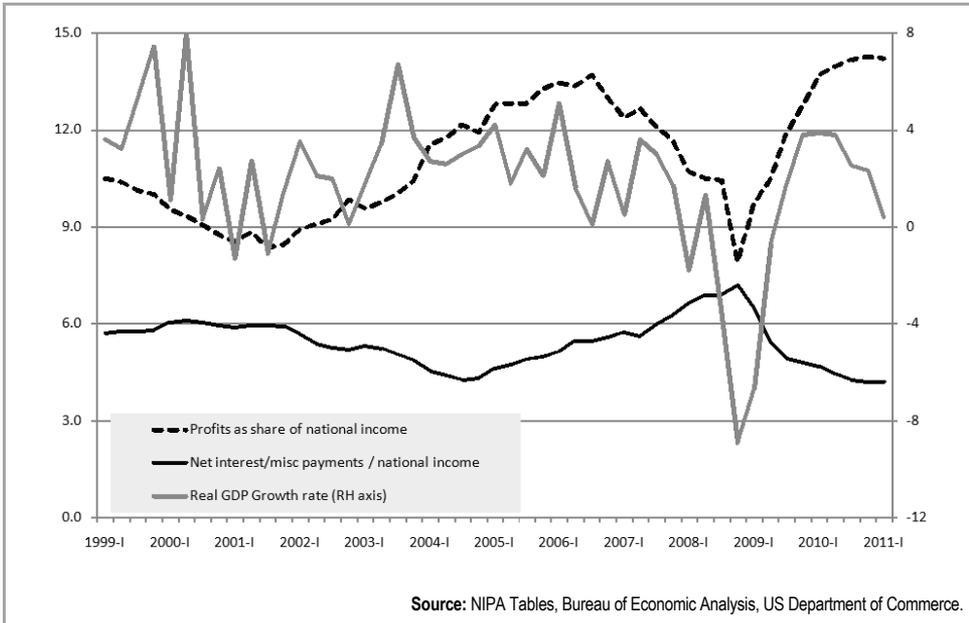
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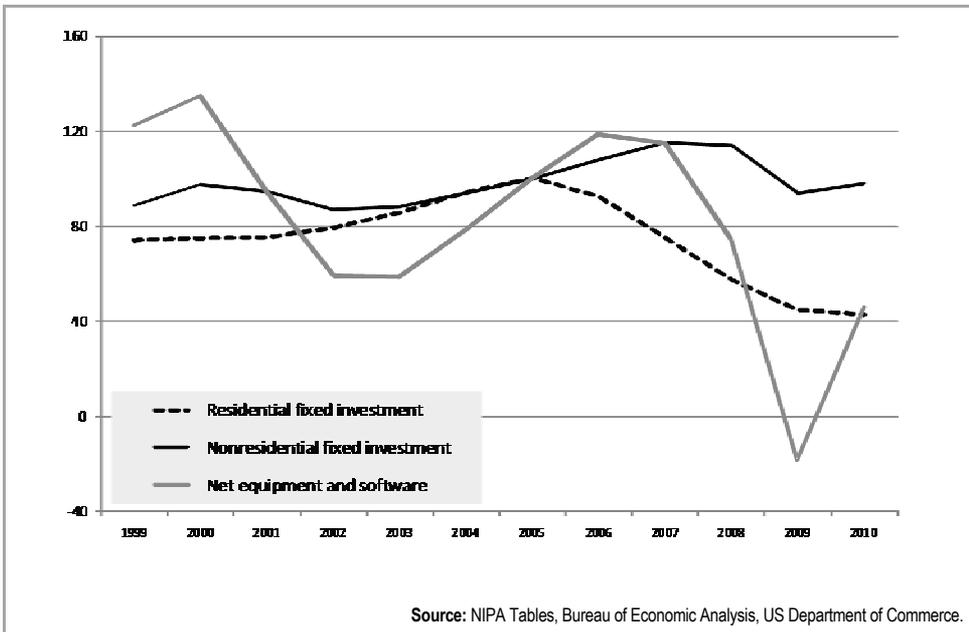
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## Appendix



**Figure 1** Profits and Net Interest as a Share of National Income, Plus Growth Rate of Real GDP, United States, 1999-2011 (Quarterly Data)



**Figure 2** Index of Net Real Investment Spending by Category, 2005=100, United States, 1999-2010 (Annual Data)