

Chapter One

Introduction

One day of freezing cold will not produce ice one meter-thick.

— Chinese proverb

Those in key positions tend to see the world through key holes.

There is general consensus that the financial tsunami of 2008 is the worst financial crisis facing the world since the Great Depression of the 1930s. It came close to bringing down the banking system of the USA and Britain. It shook the international financial systems and subsequently pushed the world economy into a painful recession. The New York stock market plunged by 57 percent from its peak in October 2007 to its depth in March 2009. It constitutes a defining moment in the history of international financial system and economy of our life time.

Several years before the outbreak, respectable economists in the USA were warning of the danger, basing their arguments on the twin problems posed by budget deficits and trade deficits, and practices of financial excesses. Unfortunately, their warnings were ignored by the

political leadership and regulatory bodies. The regulators seemed to behave like “none’s so blind as those who would not see, none’s so deaf as those who would not hear”. Surely these authorities are staffed by some of the best and brightest. What has gone amiss? Perhaps their over-optimistic assessment of the situation was shared by the broad section of society. If so, what was the intellectual climate then?

After the crisis, key words such as dysfunctional incentive schemes, deregulation, failures of rating agencies, financial excesses, greed, easy money, and financial imbalances have appeared repeatedly in reports and analyses of the current economic crisis. These have formed the main themes of policy studies and scholarly research. All these tell a good part of the story. Some offer conceptual frameworks to tell a coherent story of the collapse.¹ Others provide detailed and juicy stories, documenting the unfolding of the key episodes of the crisis.² Basically, the approaches are within the framework of monetary economics or financial economics.

This book is different. It begins with the real economy. It situates the current crisis in the societal context of the last several decades and as part of social, economic, political, cultural, and intellectual changes. Financial system is part and parcel of the economic system, and financial crisis is a manifestation of the underlying problems in the economy. The crisis blew up in the backdrop of a persistent tendency toward overcapacity in the global manufacturing sector. The advanced industrial economies could have responded to it by making a quantum jump across a broad range of technologies. Instead they resorted to financial and monetary stimulations time and

again. As the fundamental problem of overcapacity was not solved, each round of stimulus provided the conditions for a bubble, leading to the formation of the super-bubble, which burst in 2008. In this sense, the current recession is at its core a very serious economic crisis.

Though it is an economic crisis, we have to go beyond an economic focus to have a well-grounded understanding of it. For example, bankers, in giving free rein to their greed, have been responsible for financial excesses and reckless speculation. But greed is part of the human condition and it can only wreak havoc under certain societal conditions. This suggests that we need to look at the deregulated financial systems inspired by free market fundamentalism. The institutional setup has provided a permissive environment for financial speculation to run wild.

Declining Vitality of Advanced Industrial Economies

Many discussions of the crisis mention American trade deficits but significantly they do not use that as a point of departure to pursue the problem further. One exception is the treatment of the subject by Robert Brenner.³ One convenient period to begin the story is the mid-1950s when Japan embarked on a state-led and export-oriented strategy to develop its economy. From mid-1950s to mid-1980s, Japan surprised the world with the most spectacular economic growth in human history. Japanese companies flooded the world market with high-quality manufactured goods. Self-confidence of the West was sapped when the German camera industry and American

home appliances and machine tools industries were nearly wiped out. Until 1965 or so, these industries were thought to be without rivals.

The enormous success of the strategy was evident by the 1960s, which attracted Taiwan and South Korea to follow its footsteps. Soon the two new converts were joined by other East Asian countries. The result was overcapacity in manufacturing, which led to drop in profits in advanced industrialized economies.⁴ There was a brief period from 1985 to 1995 when the US manufacturing staged a revival of profitability and export growth. Besides relying on IT innovation, this revival was based on tax breaks, wage freeze, and weak dollar (as a result of the Plaza Accord in 1985). However, the revival was too short and lacked the “critical mass” to provide the dynamism and momentum for a paradigmatic transformation of the economic landscape.

The advanced industrial economies had shunned from the difficult strategy of investing in R&D in order to make a quantum jump across a *broad range* of technologies. Admittedly, there were technological breakthroughs in the case of Internet-related innovations. But these technological innovations taken together were not broad enough and they could not generate enough *new high-tech* manufacturing capabilities to maintain the profit levels and provide employment of the good old days. Had they done so, they could have provided the world with more sophisticated technologies while the late comers would take over their contemporary technologies. It would have benefited the world by creating a kind of win-win international division of labor through complementary specialization of production.⁵

The failure of the advanced industrial economies to do so is an inauspicious sign of their economies and societies, in the broad sense of the term. “The basic source of today’s crisis is the declining vitality of the advanced economies since 1973, and, especially, since 2000.... Most telling, the business cycle that just ended, from 2001 through 2007, was — by far — the weakest of the postwar period, and this is despite the greatest government-sponsored economic stimulus in U.S. peacetime history.”⁶ It is not that there were no warnings about the danger of hollowing out of manufacturing, but somehow they were ignored.⁷

As it happened, these countries resorted to easier ways out. First, their manufacturers chose to relocate their factories to East Asia, which welcomed them with tax holidays. Moreover, wages were held down by state powers, sometimes with naked police brutalities as in the case of South Korea. The manufacturing firms that remained behind deployed the time-honored method of squeezing the workers. From the mid-1970s, workers’ pay increase has been lagging behind the increase in productivity.⁸ In this, the business world was given a helping hand by the anti-labor policies of Prime Minister Thatcher and President Reagan. The anti-labor movement was further undergirded ideologically when the Berlin Wall collapsed in late 1989 and the subsequent ideological swing to the right.

Second, governments of the rich West maintained economic growth (and therefore capital returns) by financial and monetary expansion. For a while, traditional Keynesian measures managed to pull off the act, but over time, the approach was losing steam. To prevent the

economy from sinking to a level that is politically dangerous, governments then used artificially cheap credit to boost the economy.

Third, there is a systematic move to direct resources away from the daunting project of advancing technological frontiers and building social infrastructure to the finance, insurance, and real estate (FIRE) sectors where quick money can be made. In America, the financial sector's share of total corporate profits climbed from 10 percent in the early 1980s to an incredible 41 percent at its peak in 2007; the profits in the past decades are in the order of trillions.⁹ Its share of the stock market's value grew from 6 percent to 23 percent. Such figures prompt even the pro-free market *The Economist* to comment: "It is hard to believe that financial services create enough value to command such pre-eminence in the economy. At the peak, the industry accounted for only 14% of America's GDP and a mere 5% of private-sector jobs."¹⁰

Financial speculation has also become part of the toolkits of industrial and commercial companies, whose senior executives are increasingly obsessed with deal-making. Their constant concern is merging and de-merging, buying and selling bits of their corporate portfolios.¹¹ The treasury department of some companies has even been actively involved in writing derivatives or in currency trading as a way to earn the extra dollar. "For a long time now a number of companies have seen their treasury areas as profit centres."¹² There are several giant companies that disappeared from the corporate world because of this. Unless the very top of the companies are snoozing most of the time, it is hard to believe that financial transactions of such nature are conducted without their knowledge.

Along the way, the day of reckoning was postponed. It is like doing patch work to cover up cracks in the structure of a bridge that needs a major repair. While the bridge looks good after each patch work, the degeneration of the structure continues unabated. The apparent success of each patch work actually increases the cost of the major repair, until of course on one fine day the bridge simply gives way. The analogy is not to dismiss the merits of patch work. But by its very nature, patch work is a temporary measure to cope with an urgent task, to win time to do the more fundamental renovation. Every good engineer knows this point.

To Wall Street's great delight, ingredients needed for the patch work — cheap money for the FIRE sector and fiscal deficits — are available. One source is from the foreign reserves of oil-exporting countries. Another is from Asian countries, which have built up massive foreign reserves as a defensive measure after the Asian financial crisis.

From Washington's perspective, it is fine that Asian countries are keeping their surpluses in US dollar and therefore in the US banking system. It allows America to afford cheap credit that delivers two advantages. Cheap credit is translated into asset booms, creating enormous profits for asset owners. Businesses can use their inflated assets to borrow more money to expand or to raise more capital by selling stocks at good prices. Assets-owning households experience the "wealth effect" and they can afford a spending binge. We have thus a period of consumption-driven growth buttressed by constant supply of cheap money. "One has therefore witnessed for the last dozen years or so the extraordinary

spectacle of a world economy in which the continuation of capital accumulation has come *literally* to depend upon historic waves of speculation, carefully nurtured and publicly rationalized by state policy makers and regulators — first in equities between 1995 and 2000, then in housing and leveraged lending between 2000 and 2007. What is good for Goldman Sachs — no longer GM — is what is good for America.”¹³ Brenner calls this “stock market Keynesianism”.

The world was given a classic example of stock market Keynesianism in the form of Japan’s response to its economic difficulties in the mid-1980s. Its results are well documented — in the form of a long recession in Japan, widely known as the “lost decade”. What the West had suffered at the hands of Japan was experienced by Japan then. By mid-1980s, South Korea, Taiwan, and other East Asian countries had become Japan’s star pupils, if not clones. And like the West, Japan failed to make breakthroughs across a range of technologies so that it could create new industries. For sure, there were numerous incremental improvements of existing technologies, resulting in better qualities of existing products. But such ripple-like innovations are quickly copied by the newly industrialized countries that have the advantage of lower costs of production. Though exporting manufacturers of Japan were still making profits, they were facing stiff competition from the newcomers. The problem of Japan took a turn for the worse when in 1985–1986 an appreciating yen reduced its exports, put pressure on prices and profits. To ward off the downturn, the Bank of Japan slashed interest rates and orchestrated banks and brokerages firms to direct the easy money to

stock and housing markets. The downturn was bought off at the price of a super-size bubble that burst in 1990. The damage to the economy and society still lingers on today, prompting some to remark that it is not one but two decades lost.

Hubris

To have a more detailed look at how the recent crisis actually unfolded in the US, it is relevant to look at deregulation and its background. Deregulation of financial markets began in the 1950s, but until the 1970s, there was not much change. Deregulation in Europe and the OECD member countries in the 1970s and 1980s was followed by financial innovation, consolidation at home, forays abroad, and some change in standards.¹⁴ By the early 1990s, the regulatory system has largely disappeared. It is either abandoned through the formal repeal of laws or through getting around it by means of clever innovations. Financial crisis becomes a regular feature in economic life.¹⁵ There is the credit crunch of 1966, Wall Street crash of 1987, and the collapse of the Savings and Loan in 1990. The crises from Mexico (1994) to East Asia (1997), Russia (1998), and Brazil (1999) are shocking in their frequency, virulence, contagion, and scale. The crises highlight how interconnected and vulnerable the world's financial systems have become.¹⁶

These crises have not really shaken the rich Western countries to serious rethinking. In the US, past recoveries from financial meltdowns gave policy makers the confidence that the Fed was very much in control.¹⁷ Though some lessons were learned, the crises have not

been used as opportunities to draw deeper lessons and to build more robust and resilient financial systems. Neither did they look at the root of the problems in the real economy. Serious structural problems in the economy were left to fester. Hubris grows. Financial excesses get worse. “The current crisis originated in the subprime mortgage market. The bursting of the US housing bubble acted as a detonator that exploded a much larger super-bubble that started developing in the 1980s when market fundamentalism became the dominant creed. That creed led to deregulation, globalization, and financial innovations based on the false assumption that markets tend toward equilibrium.”¹⁸

Belief in near-perfect operations of the market is one of the schools of thought in market economy. Markets are known to have failed time and again. But somehow the intellectual climate developed in such a way as to favor market fundamentalism. Do democracies not allow free contest of ideas and ideologies? This leads to the question: how does this come about? The study brings into the picture the fall of the Berlin Wall, the bursting of the Japanese bubble, the dot-com boom, and the 1997 Asian financial crisis. These important events conspire to boost the standing of the Anglo-American variant of free market economy. Free market triumphalism emerged to dominate the scene, most profoundly in the world of finance.

Market Society

The term “financial excesses” has appeared repeatedly in the voluminous writings on the Wall Street collapse. Looking back, it is easy to assess the roles of Chuck

Prince of Citigroup, Sir Fred Goodwin of Royal Bank of Scotland, Richard Fuld of Lehman Brothers, and Stan O’Neal of Merrill Lynch. But before the bubble burst, they were seen as heroes, as masters of the universe. They were cheer leaders who nudged their teams to charge on and make the best of the moment. Alan Greenspan was the great high priest in the temple of neoliberalism and was an idol worshiped by the financial world. It is not wrong to see them in bad light now, given what they have done. But a more fruitful approach is to see them as products of the environment. Without the institutional setup and social attitudes, they, or at least not so many of them, would not have been able to operate on the scale they did. Seen in this light, the current financial crisis is not simply a case of villains such as Madoff and Stanford. It is not simply a case of lack of integrity of bankers either. It is not just a case of lack of oversight or an inadequacy in the design of financial systems. It is all these combined and more, including the wide acceptance of putting profits before everything else.¹⁹ It reflects a sea change in social values, norms, culture, economic behavior, and social life. In the midst of the change, market economic fetishism spreads and has come to dominate the running of non-business organizations. In the words of Professor Michael Sandel, we have a market society.²⁰

As in the past and certainly more so this time, the crisis has produced calls to reform the financial system. So far, the signs are not encouraging. There is no attempt to reduce the size of the financial sector and no attempt to break up banks that are “too big to fail”. Proposals to regulate derivatives appear half-hearted, as evidenced by not banning naked credit default swaps. We can therefore

understand why pessimists are predicting that we should expect another crisis in the near future.

Accountability is an important concept in social life, and certainly so in the business world. What transpired in the banking sector can hardly be used to inspire confidence in the accountability of American business system. It is surprising that in spite of the size of the crisis and the damage inflicted to the economy and society, there is hardly any move to attribute the blame and punish those responsible. “What has happened to accountability?” even teenage children are asking. One colleague remarks, “Given the scale of the crisis, it is a rather blameless crisis. It is truly amazing!” Except for the special case of Madoff, top bankers are allowed to keep their fabulous pay and bonuses even though they are mainly responsible for having driven their banks over the cliff.

The crisis has also provided a forum to argue for bringing back the moral elements in economic life. The call harks back to Plato and Aristotle who maintain that economy is part of society and economic development must serve social development. Contrary to the view advanced by neoliberalism, market economy has a lot to do with social welfare of the people, moral fabrics of society, and the social institutions based on them. It is thus instructive to study carefully the works of theory builders of market economy such as Adam Smith, Arthur Pigou, John Stuart Mill, and Alfred Marshall.

Nemesis and a Good Crisis

At the World Economic Forum in Davos early 2009, there was talk of not wasting this good crisis. It may sound

bizarre to perceive the deep and painful economic crisis as a good crisis. Well, in a way it is. The crisis is a good thing at least in the sense that it is a sharp and loud wakeup call, that it provides an occasion for us to reflect hard on the underlying causes so that we are wiser for the experience. If we are not to waste this crisis, then we should look at it as the eruption of a serious disease in the body of economy and society. If the crisis marks the turn on a better path to the future, then future historians will be able to tell a story with a happy ending. Below are some points to be put on the agenda.

A good starting point to see the global economic crisis is to take a step back and take stock of the features of the new economic and social landscape. The economic world has been radically transformed since the end of World War II. Yet, we are still depending on the key institutions crafted more than 60 years ago. These institutions continue, albeit in modified forms, to carry out governance duties of global finance. Since the breakup of Bretton Woods in 1973, financial crises tend to increase in numbers and severity. It suggests that reform is sorely needed.

To start at the basics, we must be realistic in expecting the level of profits that can be generated by the corporate world. Pressure and tricks can yield exceptional profits in the short run while they create long-term problems. The foundation of economic well-being lies in adding values and increasing productivity.

The Anglo-American version of market economy has left behind some very disturbing social problems. This is most evident in drug abuse, high crime rate, and prison population in the US.²¹ They are the social counterpart of

ecological degradation. Between them, these problems are a kind of “societal deficits”. Something very similar to nation-building must be done for societies. Just as much as we must take care of our natural resources, we must take care of our societal resources — in the form of values, human resources, and social institutions. Besides pumping money to build physical infrastructure and to clean up the environment in an effort to revive the economy, resources must also be channeled to society-building. If the crisis can lead to an effective action for society-building, then it is indeed a blessing in disguise. We can proudly record in our history book that we have not wasted the good crisis.

How do we resolve the economic problems of advanced industrial countries when their manufacturing industries are moving to low-cost late comers? For some time, the solution appeared to reside in the service sector, for example banking and financial sectors. The financial sector appears to be the information economy par excellence. It employs many people; it uses IT as the work-horse to process data and it spurs economic growth. The crisis has shown that much of it is hot air. We have to rethink what exactly information economy is and how to harness technologies for economically productive and socially useful purposes.

Major financial crisis tends to stimulate technical changes and technological innovations. If there is a quantum jump across a range of technologies, it leads to new industries, greater productivity, new products, services, organizational forms, industries, and social organizations. If that happens, a crisis can be the prelude to a long-term growth. But this cannot be assumed. Using history as

guide, we need technological change, financial stability, and social progress as conditions for it. Governments can play a positive role in the process.

There is another very fundamental social trend that argues for an enhanced role for the state. It is the trend of demography. Though Japan may represent an extreme case, it does indicate what is in store for many countries in the future. Assuming that the economic wealth produced by each working person remains the same, a smaller working population will mean a smaller GDP, as the population ages and the birth rate falls below replacement rate. Left alone to the market forces, the trend of falling birth rate will continue. Similarly, market forces make it difficult for senior citizens to be employed. Healthcare for all the citizens is another issue that demands State attention. At the level of practical politics, the argument of “small state, big market” goes against social trends. It is disastrous and pure folly to pursue a policy that goes against a social trend as powerful as demographic change.

Other Questions

1. The manufacturing capacity of China, together with those existing currently elsewhere, is more than enough to meet the global demand for manufactured goods. Even before the crisis, it would imply that China might be the last country to rely on export of manufactured goods to drive its economic development. This point is now brought forward by the pressing needs of the USA to reduce its trade deficits. The question for India, Brazil, and Indonesia is: what kind of strategy can they

follow to promote economic growth and industrialization? This is an exciting time for creative thinkers among developmental economists.

2. Globalization assumes treating the whole world as one entity, especially in economic activities. This historical trend has been gathering speed since the early 1990s. There have been less restricted movements of people and trade, but the freest of all is the flow of capital. In this sense, the financial sector is the most advanced form of globalization. The catastrophic mess created by financial speculation has raised questions about globalization — its benefits as well as its nature and future. Some opine that globalization will beat a retreat.²² This is unlikely. It will continue to roll on, but its forms and substance are likely to change. What are the new forms and content of globalization in the coming years?
3. The recession means also a shift of global balance of power. It is a shift away from a world where the US calls the shots to a more multi-polar world with the US still being the most powerful player. Change is the permanent feature of all kinds of systems. It offers the opportunity for fresh ideas. One of these is to argue for a new world order built on friendly competition and productive collaboration. Viewed in this light, the dichotomy of “the Asian century” and “the American century” is false, and has the potential for making trouble rather than doing good. But would world leaders have the wisdom and leadership to craft a new and better world order?
4. In the 1990s when China, India, and the ex-Soviet bloc joined the capitalist world, the global labor pool

grew from 1.5 billion to 3 billion.²³ The labor force in the rich world would have to learn fast to live in a new world with fierce competition. At the same time, it means the appearance of growing markets for all kinds of goods and services. From system viewpoint, their entry into the global capitalist economy represents a dramatic “shock” to the system. It is bound to cause strains and to have profound repercussions in various components of the system. However, it also means the possibility of more resources and capabilities to cope with problems of a global nature. Given the magnitude of this “shock”, it is reasonable to expect more challenges ahead. For scholars of world system, the financial crisis may be seen as an important episode in the evolution of a potentially new system.

Structure of the Book

The rest of the book is organized as follows. Chapter 2 provides the background of the shift of ideological fashion after the fall of the Berlin Wall and how this has affected the financial sector. Seen in this light, it is part of the broader societal change where the reckless bankers are actors.

The collapse of the Berlin Wall at the end of 1989 represents a new milestone in the history of finance. Neoliberalism began to exert increasing influence. Chapter 3 dwells on the 1994 Mexican peso crisis and the 1997 Asian financial crisis. The two crises displayed some distinct features that are relevant for us to understand the 2008 crisis. The Mexican crisis was described

by the then head of the IMF Michel Camdessus as the first financial crisis of the 21st century.

Chapter 4 looks at the Japanese bubble that burst in 1990 and its effects are still felt today. There are a few good reasons to study Japan's crisis in detail because it bears some deep similarities with America's and UK's trouble before the 2008 crisis. Japan's "lost decade" as a result of its bubble has been often invoked as a metaphor in the debates on the current recession.

Chapter 5 lists out some salient features that make the 2008 crisis so different from the others we have experienced in our lifetime.

Financial crises are generally preceded by financial excesses. Chapter 6 looks at some attributes of the financial excesses during the good times before the subprime bubble burst.

Chapter 7 argues that the global financial system is grossly unfair. As recognized by some bankers, the system fails to protect millions of innocent people who play no part in causing the crisis. In the best of ancient Greek tradition, economic development should be seen as part of social development. Finance is here to serve economy and not the other way round.

Chapter 8 gives several important ideas on how finance must be reformed to serve economy — to return to its proper role in allocating financial resources to promote socially useful and economically productive consumption and investment.

Chapter 9 discusses the recession in the context of current global situation: nature of Keynesian stimuli, geopolitical impact of the crisis, reduced intellectual

influence of Uncle Sam, and in spite of talks to the contrary, American economy is still strong.

Chapter 10 lists the important reasons why the recovery is likely to be weak and slow. However, the crisis can serve as a wake-up call for the advanced economies to go back to the basics, to revamp and reform their economies to lay solid foundations for sustained economic development.

Endnotes

1. See for example, Michael Lim Mah Hui and Lim Chin (2010). *Nowhere to Hide: The Great Financial Crisis and Challenges for Asia*. Singapore: ISEAS.
2. See for example, Andrew R Sorkin (2009). *Too Big to Fail: The Inside Story of How Wall Street and Washington Fought to Save the Financial System — and Themselves*, London: Allen Lane.
3. Robert Brenner (2003). *The Boom and the Bubble: The US in the World Economy*, London: Verso.
Robert Brenner (2006). *The Economics of Global Turbulence*, London: Verso.
Murphy R Taggart (2009). In the Eye of the Storm: Updating the Economics of Global Turbulence, An Introduction, *The Asia-Pacific Journal*, 49-1-09.
Brenner Robert P and Jeong Seong-jin (2009). Overproduction not Financial Collapse Is the Heart of the Crisis: The US, East Asia, and the World, *The Asia-Pacific Journal*, 7 February.
4. According to efficient market theory, overcapacity cannot occur because markets will regulate themselves. A business

facing declining profits will either disappear or switch to other business. Reality gives us ample examples of overcapacity in the form of low occupancy rates in hotels and manufacturers operating on profit margin so low that they are on the brink of bankruptcy. Indicators of overcapacity are well known to business people — depressed profits, factories working below full capacities, distributors demanding hefty discounts, and so on.

See the following references for some ideas on overcapacity. More articles on the subject can be found by using Google.

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Mark DeWeaver (2009). China's Excess-Capacity Nightmare, [accessed on 22 January 2010]. Available at <http://www.project-syndicate.org/commentary/deweaver2/English>.

5. Robert Brenner (2003).
6. Brenner, Jeong (2009).
7. One book that argues strongly for the case of reviving manufacturing is: Stephen S Cohen and John Zysman (1988). *Manufacturing Matters: The Myth of the Post-Industrial Economy*, New York: Basic Books.
8. Paul Krugman (2007). Who Was Milton Friedman? *The New York Review of Books*, 54(2), 15 February.

9. What Next? *The Economist*, 20 September 2008.
Robert Guest (2009). The Coming Recovery, *The Economist*, 30 May 2009.
10. Edward Carr (2009). Fixing Finance, *The Economist*, 24 January 2009.
11. John Kay (1996). *The Business of Economics*, Oxford: Oxford University Press, p. 147.
12. PJ Rutterman (1995). Financial Fragility and Supervision: A Discussion. In *Coping with Financial Fragility and Systemic Risk*, HA Benink (ed.), Boston: Kluwer Academic Publishers, p. 293.
- 13 Brenner and Jeong (2009).
14. Charles Kindleberger (1993). *A Financial History of Western Europe*, 2nd Edition, Oxford: Oxford University Press, p. 447.
15. Gary Dimski and Robert Pollin (1994). *New Perspectives in Monetary Macroeconomics: Explorations in the Tradition of Hyman P. Minsky*, Ann Arbor: University of Michigan Press.
16. Paul Blustein (2001). *Chastening: Inside the Crisis that Rocked the Global Financial System and Humbled the IMF*, New York: Public Affairs.
17. Every time America recovers from a financial crisis, the event provides evidence both for the threat of financial crisis and for its ability to cope with it. People such as Alan Greenspan will emphasize the point that the danger is avoided, thus the reality of safety in the guise of danger. People such as George Soros will emphasize how close the economy is near the cliff of disaster, thus the reality of danger in the guise of safety.

The paragraph is a liberal paraphrase of James March *et al.* in their discussion of plane collision in the context

of organizational learning. “...every time a pilot avoids a collision, the event provides evidence both for the threat and for its irrelevance. It is not clear whether the learning should emphasize how close the organization came to a disaster, thus the reality of danger in the guise of safety, or the fact that disaster was avoided, thus the reality of safety in the guise of danger.” pp. 13–14.

James G March, LS Sproull and Michal Tamuz (1996). Learning from Samples of One or Fewer, In *Organizational Learning*, Michael D Cohen and Lee S Sproull (eds.), London: Sage.

18. George Soros (2008). Regulation Revisited, 1 December [accessed on 15 January 2009]. Available at <http://www.project-syndicate.org/commentary/soros39>.
19. Michael Lim Mah Hui and Lim Chin (2010).
20. Michael J Sandel (2009). 2009 BBC Reith Lectures — A New Citizenship. Available at <http://www.bbc.co.uk/programmes/b00729d9>.
21. Far Too Many Americans Are Behind Bars, 4 April 2009, *The Economist*.
22. Roger C Altman (2009). Globalization in Retreat. *Foreign Affairs*, 88(4), 2–7.
23. The Left’s Resignation Note, *The Economist*, 13 December 2008.