Zombie Economics

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Testifying before Congress in 2008, Alan Greenspan, former chairman of the Federal Reserve, acknowledged that there had been a flaw in his model of "how the world works." Self-interest, he had discovered, does not necessarily guarantee that finance capitalists will protect the interests of their shareholders or their firms. He was "shocked," he told Congressman Henry Waxman, because for more than four decades he had thought there was "considerable evidence" that the system had been "working exceptionally well."

Jeff Madrick is, well, somewhat less surprised. A former economics correspondent for The New York Times, a regular contributor to The New York Review of Books, and the author of The End of Affluence, Madrick has been in hot pursuit of malefactors of wealth and their political enablers for decades. In Age of Greed, he provides a richly detailed and often riveting account of the run-up to the worst economic crisis in the United States since The Great Depression. The crash, he argues, was not a systematic failure. It was caused by a handful of men, who made "bad, self-serving decisions" that put our nation at risk.

Age of Greed is clumsily-written and repetitious. It does not pay sufficient attention to structural problems and global challenges to America's economy. Nor does it provide clearly delineated alternatives to the misguided policies of the past. Nonetheless, the book is a must-read. Taking readers on a guided tour of a well-stocked rogues' gallery of theorists, policy-makers and corporate CEOs, Madrick delivers a clear and compelling name-calling "emperor has no clothes" expose of the claim that government entitlement programs, taxes, oversight, and regulation are a drag on the American economy.

The unequivocal assertions of Milton Friedman, the libertarian icon, about monetarism, inflation, the causes of The Great Depression, social welfare and Keynesian economics, Madrick demonstrates, were rarely grounded in empirical evidence. Nor does he deserve the credit he gets for prescience about the stagflation of the 1970s.

Once the most widely admired Fed chairman in history, Greenspan, Madrick suggests, was quite often asleep at the switch. In 1985, he vouched for Charles Keating's Lincoln Savings & Loan in a letter to federal regulators; five years later, when the country was in a recession, he said it wasn't; in 2001, he endorsed the Bush tax cuts, claiming that chronic government surpluses could be "almost as de-stabilizing as chronic deficits;" and he approved (with what turned out to be irrational exuberance) of securitization, derivatives, and the de-regulation of banks as good ways to spread risk.

During the last forty years, Madrick reminds us, right-wing politicians exploited fears of inflation to confer legitimacy on these views. They approved almost any tax cut, even if it caused federal deficits, because it would "starve the beast" and, over time, cause the government to shrink. For the same reason, a tax increase - any tax under any circumstances - was anathema to them. And they repealed a raft of government regulations, including the Glass-Steagall Act, which for a half century had created a firewall between investment and depository banks.

Left in essence to their own devices, financial capitalists had a field day. Interested only in short-term gains, they made billions, Madrick indicates, by cutting costs; acquiring, consolidating, and divesting; and taking ill-considered risks. They did not introduce new products or innovative ideas. In investment banks, analysts distorted their research to encourage investors to buy shares in the companies of clients doing business with the investment banking divisions of their firms. These are the folks, of course, who gave us Enron, the dot com bubble, and sub-prime mortgages. Their compensation, in salary and stock options, was obscene (especially in comparison to the stagnating wages of their workers).

Although the principles and practices that have defined the age of greed have been deconstructed and discredited by Madrick and others, they live on. Zombie economics, John Quiggin has recently written, "is already reviving and clawing its way through up the soft earth."

The Democrats, it appears, cannot summon the political will to drive a stake through the hearts of laissez-faire, trickle-down, supply-side, privatization and efficient markets theories. The Dodd-Frank de-regulation bill of 2010, Madrick points out, left in place financial institutions once declared too big to fail - and kicked the can down the road on capital requirements, limitations on leverage and the powers of the newly constituted consumer protection agency. Some Democrats do not agree that the party should push hard for estate taxes on the super-rich, increases in income tax rates for millionaires and the elimination of oil depletion allowances.

Despite stiff competition from developed and developing countries around the globe, Madrick concludes, our elected representatives are nowhere near a plan "to channel savings for productive uses" by investing in infrastructure, research, and education. We've had fair warning: if we don't act, affirmatively, and soon, it just may be the fire next time. And soon.