END THIS DEPRESSION NOW! by Paul Krugman. New York, NY: W. W. Norton & Company, 2013. ISBN: 978-0-393-34508-7; 259 pages.

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Since the 2008 financial crisis hit, rivers of ink have flown from all corners of the –economic and noneconomic– academic world into the sea of (usually misled and/or misleading) individuals who make up what is known as public opinion. Krugman reminds us, from the very first pages of this interesting book, that most of this literature has attempted to explain (either successfully or otherwise) how 'it' finally happened. He, instead, asks "What do we do now?" The bottom-line of his answer, well defended on Keynesian grounds, plain and simple is: let the Government borrow and spend what the private sector is unwilling to.

This proposal is, of course, not new to heterodox economists. But this lack of novelty is natural, since the author addresses a much wider audience: the vast majority of the misinformed public, misleading journalists, and most notably "orthodox" economists.

Before going further, I would like to stress that this is a good read, even for heterodox economists and the well-informed public who are already aware of the virtues of expansionary fiscal policy. The idea is noble, most of the arguments are convincing, citations are timely, and the narrative is very entertaining and full of pop culture as a highly effective pedagogical tool.

Economic Ideology and the Twentieth Century

Without pretending to make an extensive review of the (economically speaking) most important socio-political events of the past century, it seems worth it to link some historical facts as well as some important publications with the current state of the economics profession. Krugman deals mainly with the Great Depression and the last three decades, therefore I focus on other major events.

WWI and the Russian Revolution were perhaps the first major manifestations of inconformity with the up-to-then prevailing capitalist system. The main consequence of the former was a world sociopolitical reorganization, which quickly led to a shift of economic power from Europe to the United States. To state the obvious, the main consequence of the success of the latter was the creation of the Soviet Union, which eventually led to the Cold War. Despite some progress in the academy (notably the works of Fisher, Schumpeter and Wicksell) and despite potential disagreement from some colleagues, there were no major works in economics published back then. Dictators mushroomed both in the Soviet and Non-Soviet worlds, but dictatorships started to get more closely associated with terms such as socialist/communist (despite major conceptual differences), centralization, state-led or virtually any other social organization-related term used at the time with Russian or German origins[1].

The period's axes-of-evil gained popularity thanks to the effective measures they undertook facing the Great Depression, throughout which conservative economists insisted on measures such as balanced budgets and lowering wages as a means to end the long

[1] See, for instance, "The Road to Serfdom" by none other than Friedrich von Hayek.

[2] Just for the record, neither Robinson nor Pasinetti (the Cambridge-UK side) won Nobel Prizes, contrary to

unemployment spell into which the capitalist world had fallen. In 1933, Hitler and Roosevelt began a race to the top through public spending to *end that depression then*. By the time Roosevelt started backpedaling (though not Hitler) Keynes had started a revolution in the economics profession. A year after the publication of his *General Theory*, some economists fired back either rejecting his "radical" ideas or providing support (even if halfway, such as John Hicks, for instance). The discussions went on and on, but spending programs eventually turned into massive military spending programs: WWII, reconstruction, and the Cold War followed. The war led to a new geo- and socio-political reorganization with several colonies gaining independence (except, for some strange reason, those under US control); the US-sponsored reconstruction led to prosperity and an important reduction of income inequality; the Cold War brought… well, more military spending, more conflict, and "fear" of nondemocratic regimes.

Peace (whatever that meant) had finally arrived. Keynes passed away the year after the end of the war, though not his ideas, nor his opponents. The fifties and sixties were very prolific in the economics academy. Some important works published back then (and still relevant today) are: Joan Robinson's 1953 article "The Production Function and the Theory of Capital", Phillips' 1958 article "The Relationship between Unemployment and the Rate of Money Wages in the United Kingdom, 1861-1957", Modigliani and Miller's 1958 article "The Cost of Capital, Corporation Finance, and the Theory of Investment", Okun's 1962 article "Potential GNP, its Measurement and Significance", Pasinetti's 1962 article "Rate of Profit and Income Distribution in Relation to the Rate of Economic Growth", Friedman's 1963 book "Inflation: Causes and Consequences"… let us leave it there, but not without saying that this rather small list of economists/works, if not extensive, represents (in my opinion) the origin of a good deal of current debates which Krugman touches upon throughout his book.

Robinson's attack on the very foundations of the neoclassical theory of the firm set the stage for a rich intellectual (long forgotten) debate known as "The Cambridge Controversies"[2]. Phillips' empirical work on UK data unchained the *Phillips Curve Revolution*. This work highlighted the importance of cost-push and demand-pull inflation (particularly the latter). Modigliani and Miller came up with an irrelevance axiom which is widely accepted in the mainstream even past the most severe financial crisis since the Great Depression, mainly that the composition of financial instruments (be it debt, equity, deposits or bonds) is unimportant. Okun reminded policymakers of the virtues (now forgotten) of maintaining high levels of employment and of the difficulties of measuring potential output. Pasinetti (reviving Kalecki and Kaldor) brought up a subject (the link between income distribution and growth) currently studied through at least two different lenses: the Post-Keynesian theory of Demand Regimes and Public Choice[3]. Last, but certainly not least, Friedman's apocalyptic messages of the dangers of inflation when pursuing Keynesian policies were an important landmark of today's mainstream literature, though his warnings made their way through in full two decades later. Of this non-extensive list (not in the book), the author seems to insist upon two main (seemingly contradictory) lines of arguments: the

[2] Just for the record, neither Robinson nor Pasinetti (the Cambridge-UK side) won Nobel Prizes, contrary to Samuelson and Solow (the Cambridge-US side).

[3] Perhaps the most important difference between these two approaches is that the former sees debt-spending as a tool to fight unemployment, and the latter see it as an obstacle to reach democracy. The reader must bear in mind that the Nobel laureate James Buchanan (one of the main founders of Public Choice) insisted on the *moral virtues* of keeping budgets balanced.

Phillips Curve and Okun's Law. Fear of inflation (or "The Phantom Menace" in Krugman's words) vs. fear of unemployment.

The seventies shook once again the dominant ideology. The end of Bretton Woods in 1971 (or the first clear step towards deregulation), the growing importance of the OPEC and the first oil shock two years later, Nixon's resignation the year after, the end of the Vietnam War and a second oil shock, were all events which made the foundations of the up-to-then mainstream literature look again shaky. The coexistence of unemployment and inflation (a clear contradiction of the Phillips Curve) received special attention and treatment. Robert Lucas, Hyman Minsky, and Robert Mundell were perhaps the most acclaimed economists of the decade. Lucas because of his work on rational expectations and his revival of *inflation-phobia*; Minsky because of his revival of Keynes's ideas; Mundell because of his extension (the decade before) of the IS-LM model to open economies, particularly relevant at the time to understand why fiscal policy under fixed exchange rates (associated with the Bretton Woods system) was no longer effective and was replaced by monetary policy under the new regime of flexible exchange rates.

Broadly speaking, the main legacy of the eighties was Reaganomics; that of the nineties was the stock-market boom; and the first decade of the new millennium brought the end of both. This awful story is much better summarized in the book (with lots of passion and frustration many of us share) in chapters 4, 5 and 6, therefore I will save space in order to respect the 2000-word limit and highlight what I consider one of the most important messages Krugman transmits, and which has not received much attention in the academy despite its enormous importance.

Academic Conservatism

Chapter 6 (*Dark Age Economics*) is perhaps the most passionate discourse on how it all went wrong thanks to academic conservatism. The following citation[4] says it all:

> There has been *remarkably little rethinking* on the part of finance theorists […]. This reaction is understandable, though not forgivable. For either Greenspan or Fama *to admit how far off the rails finance theory went would be to admit that they had spent much of their careers pursuing a blind alley*. The same can be said of some leading macroeconomists, who similarly spent decades pushing a view of how the economy works that has been utterly refuted by recent events, and have similarly been unwilling to admit their misjudgment… But that's not all: in *defending their mistakes*, they have also played a significant role in undermining an effective response to the depression we're in (p. 100-101, emphasis added).

Krugman is, of course, particularly referring to finance theorists. Their "disease," however, is present in almost any aspect of life. Plain conservatism may be associated with political conservatism, but what I refer to as "academic conservatism" goes well beyond any political standpoint. "Practical men"[5] (to which Keynes referred in one of his most-quoted-phrase from the *GT*) often defend a point of view regardless of the possibility of their assumptions not holding *at all times* or which only hold under *particular circumstances*. This

[4] An anticipated related thesis can be found in Veblen's chapter eight (Industrial Exemption and Conservatism) of his "Theory of the Leisure Class".

[5] "Practical men who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist" (Keynes, 1936).

is particularly true of Friedmanites who regard conclusions (not assumptions) as the most important prerequisite for theory- and policy-making. Keynesian economists are well aware of this critique. However, what we *all* must be aware of is that there are no absolute truths. In failing to recognize with humility that a theory might hold under *some* circumstances and that there may be some still unknown circumstances which the theory does not account for, economists (through their influence on public opinion) have made the duration of what Kalecki called the "Political Aspects of Full Employment" (or political business cycles) much longer and much more painful to endure. Most conservative right-leaning economists have insisted on market-fundamentalism, whereas (some) conservative left-leaning ones (some of them not very well-informed) have insisted on Keynesian-fundamentalism. Now, both types of conservatives may have a strong (personal!) incentive for *defending their mistakes*, but refusing to accept they *might* be wrong not only shows lack of intellectual honesty but also that they ignore (and do not even bother to *seriously* take into account) the points of view of their counterparts. Defending free market forces in the face of a financial crisis and depression is nonsense. A hard-headed (and misinformed) Keynesian defending deficit spending even at the risk of "crowding-out" (yes, under some circumstances it may happen, e.g. a boom) may do more harm than good.

Let us remember that there have been a few notable exceptions of distinguished academicians who have "changed tracks". Perhaps the most relevant ones are the Cambridge economists Joan Robinson and Robert Solow.

In a nutshell, Krugman's book is relevant and timely not only for its main proposal, his revision of the recent progress (and set-back) of economics, his fruitful discussion of the political obstacles encountered to his (and basically whatever other "radical") proposal, but most of all to remind us that ideas are both very useful and very dangerous, especially if not revised constantly.