PART 2

ANATOMY OF A CRISIS

> Anyone who believes that exponential growth can go on forever in a finite world is either a madman or an economist.
>
> Kenneth Boulding

> Theory is when you know all and nothing works. Practice is when all works and nobody knows why. In this case we have put together theory and practice: nothing works … and nobody knows why!
>
> Albert Einstein

INTRODUCTION

The big financial mess undoubtedly started when the tech bubble burst on March 24, 2000. The financial hysteria that accompanied New Economy fever was a response to the first wave of anxiety of retiring baby boomers. It was followed by a series of boom/bust events fully in sync with Minsky's five stages of speculative bubbles (Minsky, 1986).

The ensuing stock market crisis – further aggravated by the events of September 11, 2001 and again by the 2002 scandals involving scheming executives (Enron, World Com and Vivendi) –, had only limited effects on the economy and it could be argued that the recession that followed was short and mild. In fact, it was the resolution of this crisis and the rebound in growth, with its weak levels of job creation (jobless recovery), that laid the groundwork for the next recession, carefully concealed under the guise of the "Great Moderation." From 2002 to 2007, the US economy and, in its wake, virtually the entire global economy, saw untrammeled growth with no inflation, until the US real estate market slump brought the house down and precipitated the crisis that persists to this day.

Contrary to the common narrative, which breaks the crisis up into independent episodes couched in specific external causes, the string of economic and financial crises stretching from 2006 to the present is actually a single crisis. It has its roots in the widening of imbalances in the real economy upstream of the banking system.[1] After considerably undermining this system, it spilled over into the sphere of public debt until the Greek government debt crisis of 2015. Zero or negative interest rates are perpetuating the crisis. Without radical change, the

[1]It is indisputable that the oil price rally that peaked at USD 150 in July 2008 played a major role in triggering the crisis by slowing down the pace of growth.

next phase will inevitably be its spread to the last bastion of the system, namely the central banks themselves.

The crisis was – and remains – outside the scope of the analysis of orthodox theoreticians, who pay very little attention to the financing conditions in the economy and interactions between the real world and the financial world. However, contrary to the "official" version, the banking aspect of the crisis cannot in any way be imputed to the errors and misconduct of the profession alone, even if they were unquestionably contributory factors. Likewise, the leading cause of the explosion of public debt was not profligate spending, despite the obvious laxity on the part of some governments.

The crisis was foreseeable provided that you took a critical look at the US economic recovery between 2003 and 2006 instead of standing by idly. In fact, it was predicted by the same handful of nonconformist economists and financial strategists who thought that financial instability was an inherent feature of the financial system and that innovation and deregulation had significantly worsened it.

Under normal circumstances, the general failure to foresee the near future should have triggered a sobering reflection on the validity of economic thought and led to a shake-up of people and ideas. But instead of meaningful reforms – some of which were briefly discussed and immediately abandoned – we saw the United States enter a new bull market despite the soft recovery, fueled by student loans and the resumption of subprime lending, this time linked to auto loans. At the same time, expansive austerity (sic) policies began suffocating Europe while the last bastions of social democracy openly yielded to the temptation of Neo-Conservatism (cf. the slow acquiescence of France's Hollande-Valls government to supply-side economics), with the outcome we are all familiar with: sluggish growth, jobs sacrificed through unemployment, the emergence of the working poor, etc.