

# WHAT HAVE WE LEARNT FROM THE SUCCESSION OF CRISES ?

*Contribution to the project  
“Crises, changes and continuity”*

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# Introduction

## *Why the present crisis is so interesting for social sciences ?*

1. The intellectual (but not institutional) collapse of **Doctor Pangloss' economics**: a systemic crisis
2. Theory of finance went wrong: doubts about the **efficiency of markets**
3. Economic factors cannot be disentangled from **society wide evolution and political intermediation.**

## *An opportunity not to be wasted !*

1. Reassess the **domination of economics** and its imperialism
2. Revisit long term history and try to build **an integrated approach of modern capitalist societies .**

# Synopsis

- I. Crises are not business cycles as usual, simply more acute: in search for a definition.
- II. When do major crises occur: about their origins and processes leading to financial collapse.
- III. The unfolding and the ways out of structural crises: a radical uncertainty .
- IV. Economy, society and polity: the transformative impact of systemic crises.

# I. CRISES ARE NOT BUSINESS CYCLES AS USUAL, BUT SIMPLY MORE ACUTE: in search for a definition (1).

## 1. How to detect a structural crisis in real time?

- ✓ *The breaking down of the factors that used to govern past **capital accumulation**.*
- ✓ *The dominant **intellectual paradigm** governing economic policy collapses.*
- ✓ *The leading actors struggle about the required strategies for overcoming the crisis.*
- ✓ *The policymakers have to make decision **without any theoretical justification** from the past paradigm.*



## 2. Three major consequences

- ✓ *The size of the collapse of stock market or GDP is not a sufficient criteria (December 1987).*
- ✓ *Contrary to Kondratief type explanations, there is no regularity in the time required for the recovery i.e. the emergence of a new accumulation regime.*
- ✓ *Structural crises imply an irreversibility: it is impossible to go back to the pre-crisis configuration.*

## II. WHEN DO MAJOR CRISES OCCUR: about their origins and processes leading to financial collapse

1. External and exogenous shocks exist but they are not the dominant sources of structural crises.

- ✓ *The 1973 and 1979 oil shocks trigger a recession but the absence of recovery has other causes.*
- ✓ *The stock market crashes (internet bubble, subprime) are more the expression than the cause.*
- ✓ *Public deficits are largely endogenous and consequence of the recessions.*

## 2. Since the emergence of industrial capitalism, most modern crises are endogenous.

- ✓ *The ups and downs of economic activity are the typical outcome of the inner development of **capital accumulation**.*
- ✓ *The succession of cycles leads to **the erosion of the institutional architecture** that sustains the accumulation regime.*
- ✓ *The **race for innovation** exacerbates the booms and recessions.*
- ✓ *History suggests a correlation between **financial liberalization** and the frequency and severity of crises.*

### 3. Liberalization implies a higher capital mobility that increases the frequency of banking crises (figure 1)

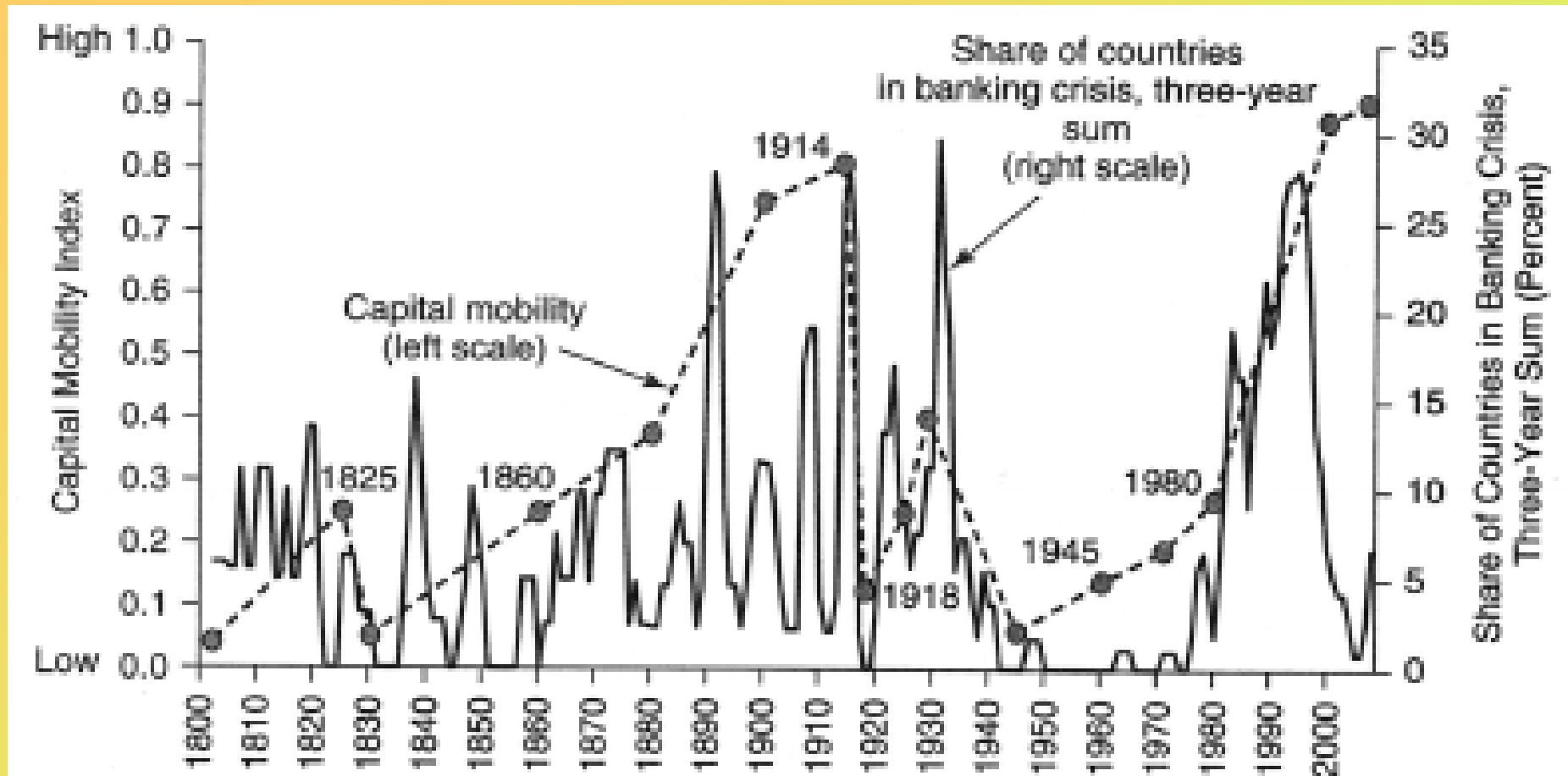
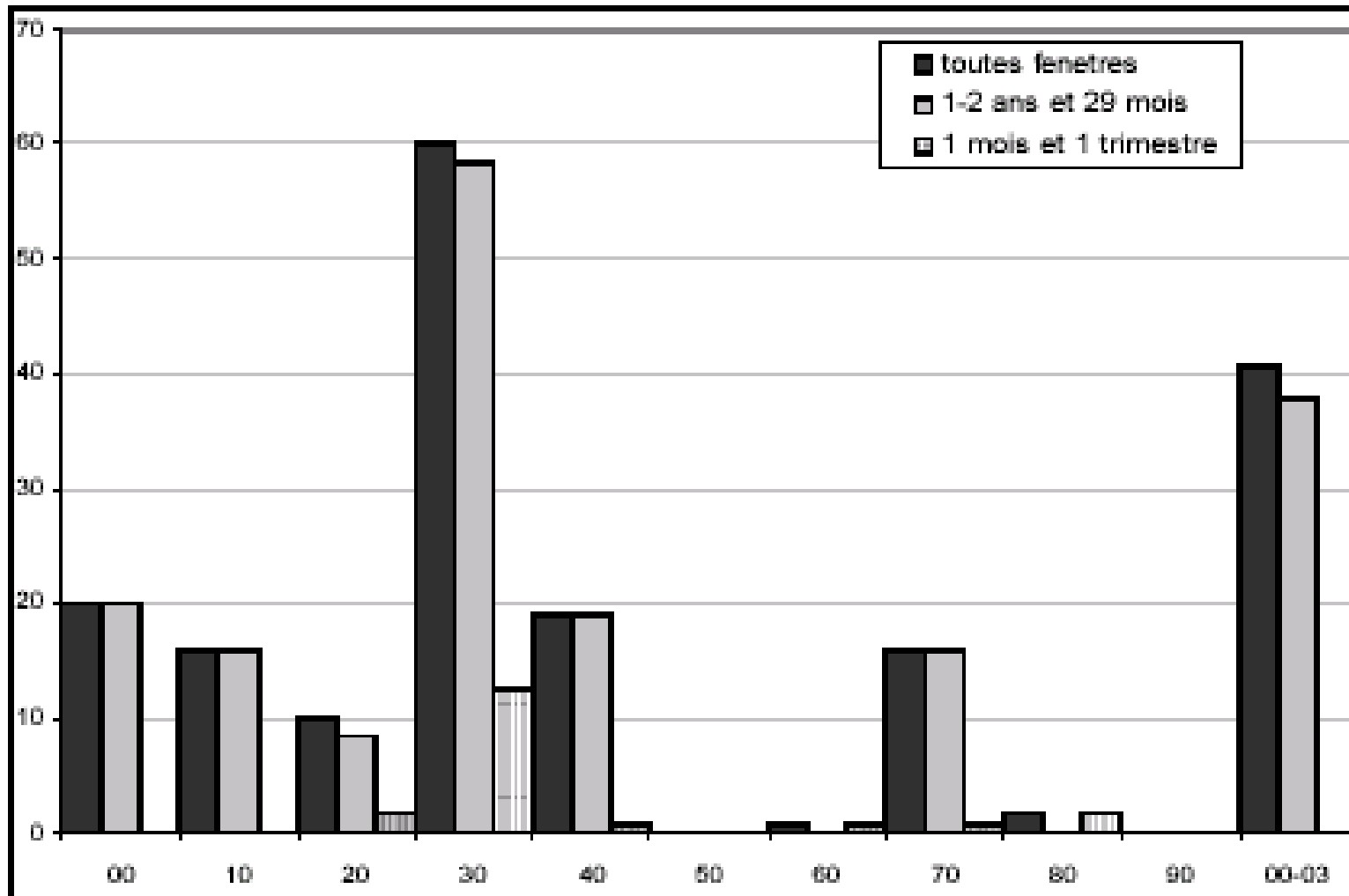


Figure 10.1. Capital mobility and the incidence of banking crises:  
All countries, 1800–2008.

Source : C. M. Reinhart and K.S. Rogoff (2009), p. 156

# ....adequate regulations may prevent stock market crises

Figure 2 – Frequency of stock market crises: 1900-2003



Source : Boucher Christophe (2003)



## 4. When the intellectual and political elites are convinced that

- ✓ “The business cycle **is obsolete**” in the early 1970s.
- ✓ “Japan is the **next number 1**” in the 1980s.
- ✓ “Financial innovations make **irrelevant the past methods** for valuation of financial assets (the new economy bubble).
- ✓ The **new central bank policies** have mastered inflation and growth (the Great Moderation)
- ✓ The Euro **is a success** since it protected from the subprime crisis (10<sup>th</sup> anniversary of the Euro)

NEW YORK TIMES BESTSELLER  
Winner of the 2011 ITA/CESF Best Academic Award

# THIS TIME IS DIFFERENT

Eight Centuries  
of Financial Folly

CARMEN M. REINHART  
&  
KENNETH S. ROGOFF

"A masterpiece"  
—Wall Street Journal



WILEY INVESTMENT CL

"Sometime in the next five years,  
you may kick yourself for not reading  
or re-reading Kindleberger's *Mania,  
Panics, and Crashes*."

—Paul A. Samuelson, Nobel laureate  
Institute Professor Emeritus  
Massachusetts Institute of Technology

LOOK  
INSIDE

# MANIAS, PANICS, AND CRASHES

A HISTORY OF FINANCIAL CRISES

FIFTH EDITION

WITH A NEW FOREWORD BY ROBERT SOLOW

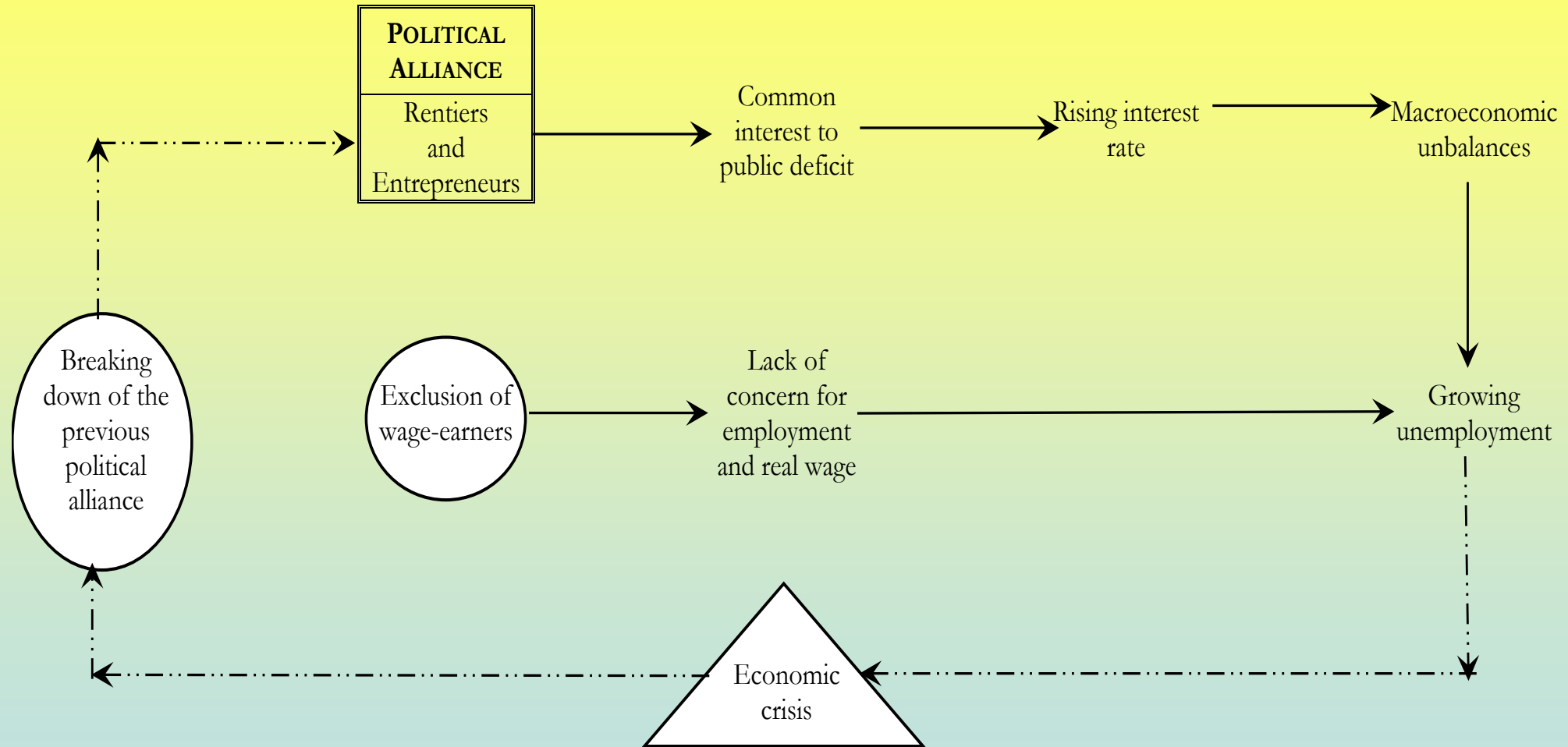
CHARLES P. KINDLEBERGER  
ROBERT ALIBER

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## 5. The exclusion of core social groups from leading political alliance increases the probability of a major crisis.

- ✓ **1929 crisis:** workers are included as producers but not as consumers in the new productive paradigm.
- ✓ **The Golden age of Fordism:** wage earners are included into the political alliance : only mild business cycles.
- ✓ **The subprime crisis :** an unprecedented concentration of wealth and power, hence a systemic crisis.
- ✓ **The Italian crisis** in the 2000s: the alliance of entrepreneurs and rentier and the exclusion of wage earners.

Figure 3 – The exclusion of a large social group may be detrimental to the viability of an economic regime: the Italian trajectory





# III. THE UNFOLDING AND THE WAYS OUT OF STRUCTURAL CRISES: a radical uncertainty.

1. Some **generic processes** are recurrently generating crises but their precise mix is always idiosyncratic given the time and the entity.

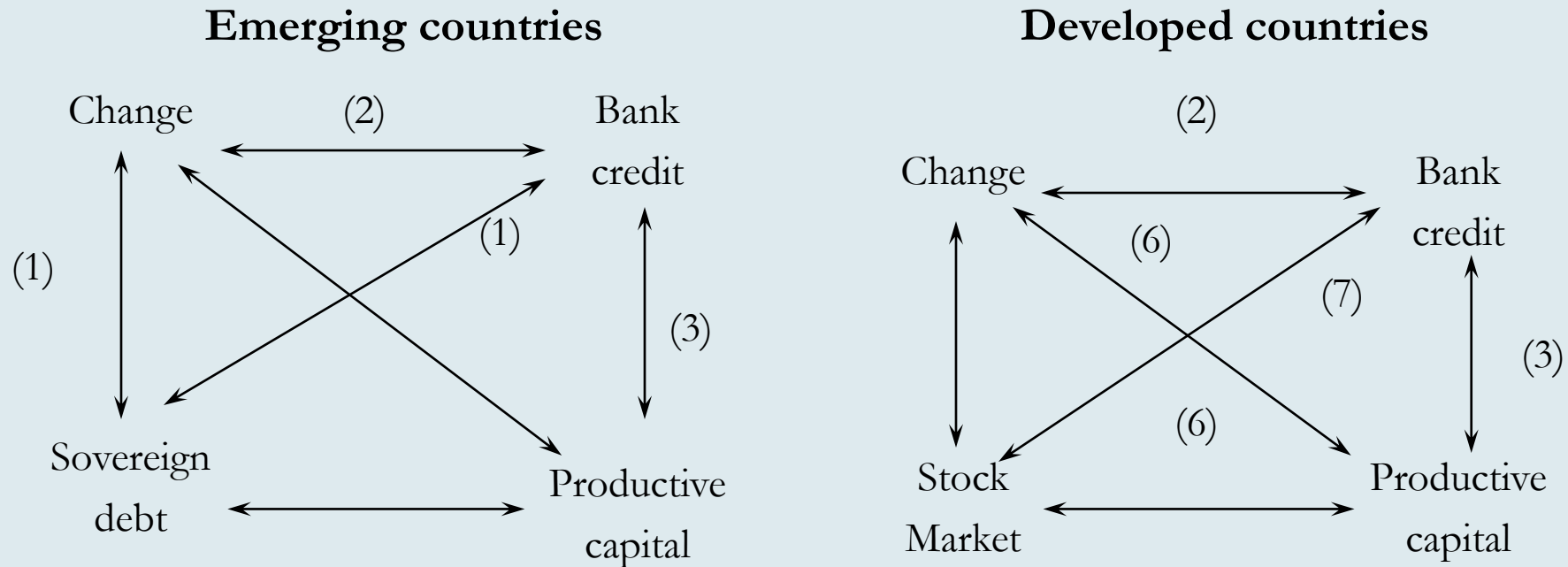
✓ *Generally an explosion of **credit** ...*

✓ *But **various instruments** for speculation : real estate, stock market, exchange rate, derivatives and scarce resources.*

✓ *The **more extended** is the speculation from one asset to another, **the more severe** is the following crisis.*



# ✓ *Reverberation effects: a brief review of the literature (figure 4)*



(1) Krugman (1979)

(2) Jeanne et Zeltmeyer (2002), Chang et Velasco (2000)

(3) Kiyotaki, Moore (1997)

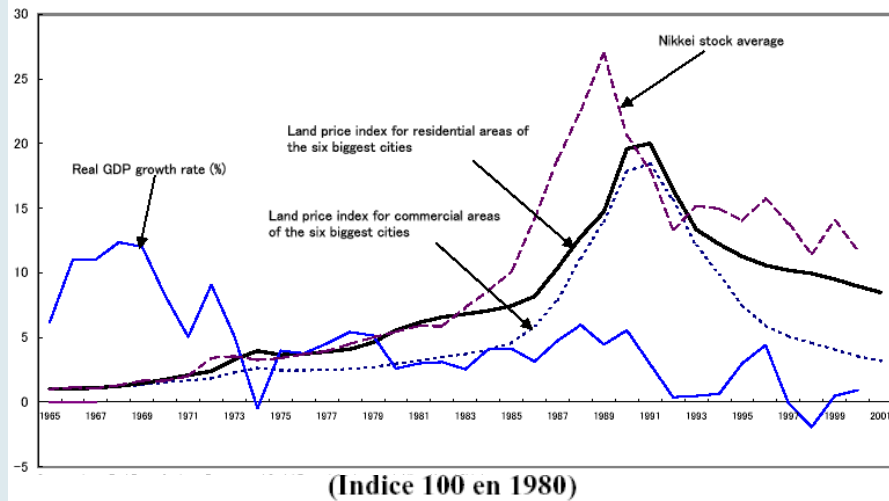
(4) Kalantzis (2003)

(5) Hausmann et Velasco (2002)

(6) Caballero et Krishnamurphy (1998)

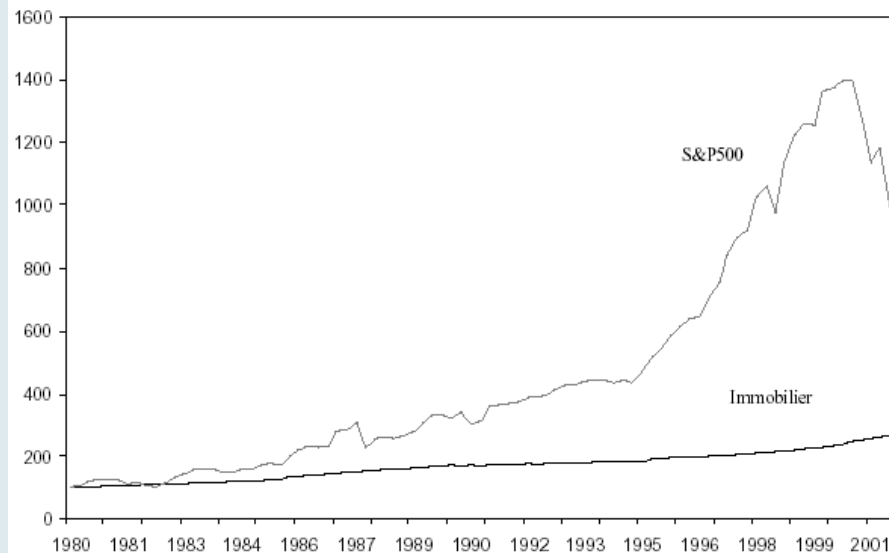
(7) Bernanke, Gertler et Christ (1999)

# ✓ *Why the American Internet bubble does not follow the Japanese trajectory*



**Figure 5 – Spill-over effects from the stock market to real estate... and bank credit: Japan**

Source : Kobayashi, Inaba (2002), Figure 1



**Figure 6 – No real estate bubble during the Internet boom**

Source : Cité par Christophe Boucher (2003), p. 20

Source : Office of Federal Housing Enterprise Oversight (OFHEO)

2. It takes time for contemporaries to recognize that “this is crisis” since they prefer euphemisms and opposite diagnoses tend to persist.

- ✓ *1929: a lagged reaction to a cumulative depression.*
- ✓ *The end of the post WWII Golden Age: a mere turbulence or the prediction of Marxist analyses?*
- ✓ *The Japanese “lost decade”: economic policy errors or the end of an easy catching up?*
- ✓ *The subprime crisis: a pure accident or the consequence of financial innovation?*
- ✓ *The Euro crisis: the spillover of lax public spending or the evidence of an incoherent and unfinished integration?*

3. The initial strategies of governments generally favour **a return to a mythical golden Age**, that deepens the crisis.

- ✓ *1929-1932: a strengthening of **orthodoxy**.*
- ✓ *The end of the post WWII Golden Age: **persisting of Keynesian** demand policies in response to a supply shock.*
- ✓ *The Japanese “lost decade”: **the cognitive and political paralysis** of economic policy.*
- ✓ *The subprime crisis: **creating a market** for non performing derivatives!*
- ✓ *The Euro crisis: applying **the failed “Washington Consensus”** with austerity policies.*

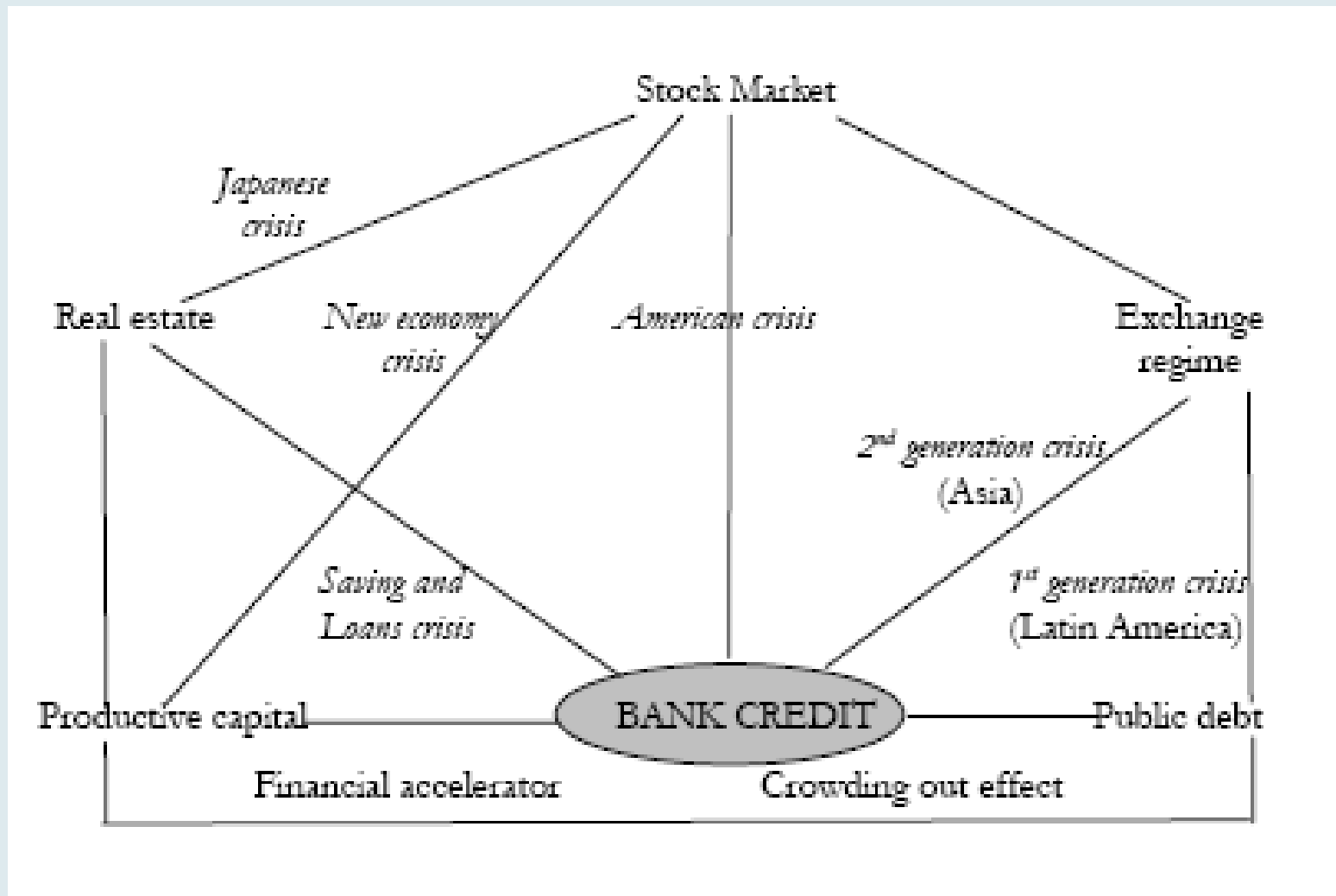
4. The way out of a financial crisis is the faster, the more **transparent and fair** the program for reconstructing the credit system and vigorous the **countercyclical public policy**.

- ✓ *1929-1932: an **erroneous** conception of money, credit and State role.*
- ✓ *The Japanese “lost decade”: **cumulative** public debt but very **slow** reduction of non performing loans.*
- ✓ *The subprime crisis: rescue of Wall Street but **no credit** to ailing firms and households.*
- ✓ *The Euro crisis: **the conflict** around a banking union is blocking the recovery.*



- ✓ The resilience / fragility of the banking system: a discriminating factor in the unfolding of financial crises

### Figure 7 – The key role of bank credits



5. Most governments finally learn from the succession of their own financial crises but their lessons are not taken into account elsewhere.

- ✓ *The 1997 Asian crisis: no lesson drawn from the Japanese bubble*
- ✓ *The Greek Crisis: some puzzling similarities with the 2000 collapse of Argentina.*
- ✓ *The American subprime crisis: a risk of deflation as in Japan?*

✓ *Baltic countries or the forgotten lesson from Latin America : it is especially dangerous to build a growth strategy upon a cumulative indebtedness in foreign currencies*

**Pays émergents : prêts en devises  
(en % de l'encours total)**

Bulgarie	66,9	Inde	1,4
Croatie	62,0	Indonésie	19,8
Rep. Tchèque	13,6	Corée	8,5
Estonie	85,3	Vietnam	21,2
Hongrie	65,7	Argentine	15,8
Lettonie	89,3	Brésil	2,0
Lituanie	64,0	Colombie	6,3
Pologne	32,6	Mexique	11,6
Roumanie	55,5	Pérou	57,5
Russie	15,3	Venezuela	<0,5
Turquie	28,9		
Ukraine	59,5		

Sources : FMI, NATIXIS

# IV. ECONOMY, SOCIETY AND POLITY: the transformative impact of systemic crises

1. Previous structural crises have not been overcome by a smooth process and rational deliberation

- ✓ *Destruction of past institutions and conventions during the two World Wars.*
- ✓ *Major shift in power distribution, domestically and internationally.*
- ✓ *Building of new institutional compromises in response to national urgency.*
- ✓ *A joint transformation of social relations, political organization, technological paradigms and economic institutions.*

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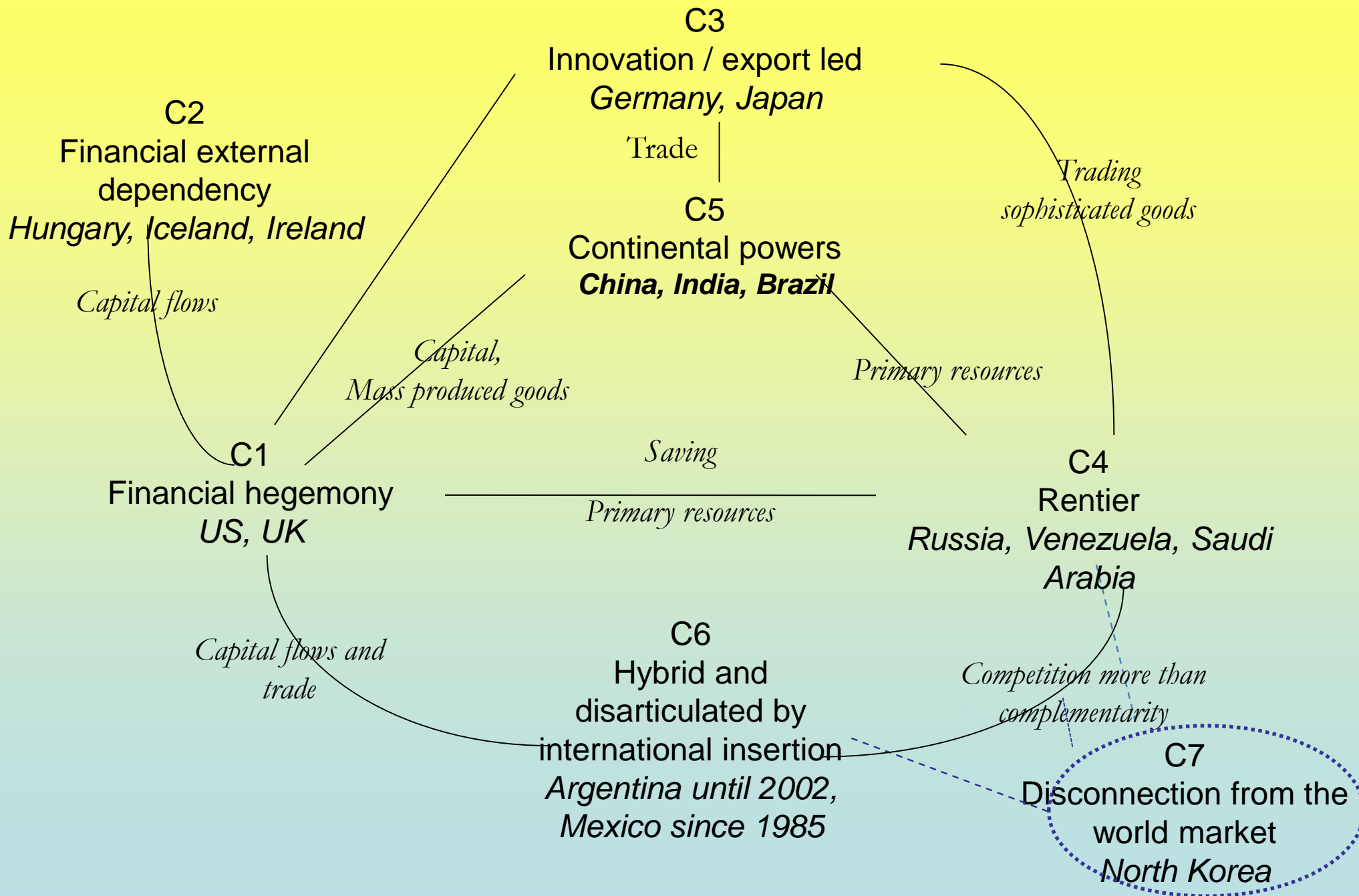
*SOURCE: DAVID MOSS (2010) COMMENTS ON BANK FAILURE/REGULATION/INEQUALITY CHART, AUGUST*



## 2. How new is the present crisis?

- ✓ *A quasi continuous trade opening has generated an **unprecedented interdependency** among national economic regimes.*
- ✓ *The **United States** are no more the super power ruling the world international relations and **China** is not bound to replace the US.*
- ✓ *The massive entry of new comers (China, India, Brazil,...) means the evolution towards **a multipolar international regime**.*
- ✓ *A potential open conflict between **democratic principles** and the entrenched power of **global finance**.*

**Figure 9 – How the seven development modes interact and coexist**



### 3. Why is the present crisis so difficult to overcome?

- ✓ *A series of **seemingly marginal reforms** (internationalization of treasury bonds, rise of pension funds, share holder value, privatization, labor reforms...) have finally generated **new, quite complex and misunderstood regimes**, crisis prone.*
- ✓ *A **new polarization of social classes and groups** has made political intermediation more and more difficult and old conceptions for democracy are challenged by citizens.*
- ✓ *The **more mobile actors** are shaping the laws, the tax system and quite all components of economic policy.*
- ✓ *Most Nation-States are now **too small** but past international organizations are **weaker and weaker**.*

### *Three factors that shape domestic democratization*

	DENMARK	USA	UK	FRANCE	JAPAN
INTEGRATION OF TRUST NETWORKS	Extended	Trend toward a larger autonomy of finance, politics and media	In public services, trust networks tend to be replaced by market mechanisms	Traditionally high but declining	Significant at the local level and partly in the political sphere
REDUCTION OF AUTONOMOUS POWER	Not applicable any longer	Increased behind-the-scene power	More dependence of the state due to economic and financial interests	Still holds an integrative role of the state, but social and urban exclusion is now emerging	Not applicable any longer
INSULATION FROM CATEGORICAL INEQUALITIES	Clear for Danish citizens, but contradictory tensions for migrants	Ethnic-based inequalities remain, gated communities, unequal access to health services and education	In spite of early welfare, growing inequalities are reflected in polity	Rhetorical equality but emerging elite–local breach	Traditional belief (belonging to the middle class) but potentially challenged since the 1990s

*Source:* Personal assessment based on Tilly's (2007) model.

# CONCLUSION

- C1. The present crisis challenges conventional economic theories that have been unable to provide a diagnosis for the emerging cumulative unbalances at the domestic and international levels
- C2. This crisis is systemic, structural and global. It shows that the previous configuration was not sustainable, not only in the economic and financial domains, but also socially and politically



**C3. This is an opportunity for political economy approaches that would articulate the social, political and economic factors that led to the quasi-collapse of the financial system.**

**C4. This should be a multi-disciplinary research agenda since all spheres ( society, polity and economy) are involved in the genesis, unfolding and ways out of structural crises.**



**Thanks for your attention  
and patience**

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