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Special Issue
The global financial crisis
– Analysis and policy options

Editorial to the Special Issue

Torsten Niechoj and Till van Treeck**

The financial market crisis that transformed into a global recession is a challenge for both economic theory and policy. In retrospect, nearly three years after the first signs of the crisis, a few tentative conclusions concerning the appropriateness and effectiveness of the responses to the crisis might be possible. After an initial state of shock, the political system acted forcefully and issued programmes to stabilise both financial sector and the real economy all over the world. Moreover, governments started to talk about an encompassing regulation of the financial sector, which was supported by many economists. This is indeed remarkable compared to what used to be common sense in the years before within advisory bodies – among others the European Commission, the IMF and academic think tanks. Privatisation and liberalisation of markets were, then, thought to be key to increasing the capacity of the economy to absorb shocks and to guarantee high growth rates and economic well-being. Although in that respect politicians and economists obviously did learn from the crisis and began to take seriously alternative ideas which had for a long time been absent in the debates, a ›return to normality‹ is already imminent; the planned fiscal retrenchment programmes, particularly within the European Union, and the deferral of regulatory measures for financial markets are testament to this. The king is dead, long live the king? From today's view it is not clear whether or not, in the longer run, this crisis has really shaken the foundations of economic thinking and policy making.

If, however, this crisis is taken seriously, it will lead to an open-minded review of positions and convictions in the sphere of economics. The mainstream of the economic profession will have to answer the question of why it seemed incapable of foreseeing the crisis, its scope and development. Heterodox approaches will have to discuss if they are well equipped to fill in the gap left by the mainstream. If there is currently a window of opportunity for a remaking of the financial system and the economic relations between countries, what are the economic and political visions for this? What are the guidelines for an economic sys-

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tem that is better able to prevent such crises? For this purpose, it is still fruitful to examine the deeper causes of the crisis in order to assess what kind of political reforms are now appropriate. Was this crisis an endogenously created, systemic one or was it the result of a singular constellation in history? What is the role of the massive increases in income and wealth inequalities over the past three decades? What role do the global imbalances play and what are the policy options to deal with them if they are destabilising the world economy?

These were the issues that the presentations and discussions of the 13th international conference of the Research Network Macroeconomics and Macroeconomic Policies (FMM) on »The world economy in crisis – The return of Keynesianism?« revolved around in Berlin during 30 – 31 October 2010. A selection of six contributions to the conference is now collected in this Special Issue. These thoroughly revised versions of the papers presented at the conference analyse the global financial crisis and investigate its causes and consequences, including potential political options to prevent (or contain) a further global crisis of similar type.

With his contribution on »Crises and paradigms in macroeconomics«, *Malcolm Sawyer* opens the Special Issue by evaluating the potential of two economic paradigms, New Consensus vs. heterodox macroeconomics, for comprehension of the development of the crisis. The mainstream view, Sawyer concludes, was not well equipped to analyse financial phenomena and fluctuations in output and employment. Against this background, a re-orientation towards Keynesian ideas should be fruitful. This argument is taken up by *Anna M. Carabelli* and *Mario A. Cedrini* in their article on »Global imbalances, monetary disorder, and shrinking policy space: Keynes's legacy for our troubled world«. Dealing with Keynes's proposals for reformed international economic relations after World Wars I and II, they show its relevance for today's global (dis)order and for a successful reduction of global imbalances. For *Jörg Bibow*, too, the problem of global imbalances has to be tackled. In »Global imbalances, the US dollar, and how the crisis at the core of global finance spread to ›self-insuring‹ emerging market economies« he discusses the impact of the global turmoil on emerging countries and the structural link between those countries' strategy of self-insurance – based on current account surpluses and the accumulation of currency reserves – and the USA acting as ›borrower and spender of last resort«. In their article on »Kaldorian boom-bust cycles in the housing market«, *Ingo Barenz*, *Peter Flaschel*, *Florian Hartmann* and *Andreas Röhbig* develop a model for the housing market, based on Kaldor's trade cycle mechanism, that can be usefully applied to study a central element and starting point of the global crisis, the house price bubbles in the USA and elsewhere. For *Yeva Nersisyan* and *L. Randall Wray*, the recent events have to be interpreted against the background of a new phase of capitalism, the money manager capitalism. As they argue in their contribution, »The global financial crisis and the shift to shadow banking«, the financial sector was not only able to demand more and more of the national income but also developed and increased the instability of the economic system. Without a drastic political turn, the next bubble is already looming. In the final contribution to this Special Issue, »The economics of deleveraging: The aftermath of financialisation«, *Thomas I. Palley* focuses on the current predicament of the USA and its roots in the process of financialisation. By using a simple business cycle model, he illustrates how a borrowing boom ends and leads to an increase in

savings and repayment of debt which, finally and after a prolonged phase of declining output, initiates recovery.

This Special Issue does not intend to cover the whole spectrum of the conference. We would like to refer readers who are interested in a broader selection of articles to the conference proceedings – Dullien et al. (2010) – which are published as volume 13 of the Series of the Research Network Macroeconomics and Macroeconomic Policies (FMM). Since 2007 the research network has been investigating processes of financialisation and financial turbulences, thus some other publications from within the network might also be worthwhile to discover, especially contributions to the conference proceedings of the last two years – Hein et al. (2008 and 2009) – and issue 2 of the year 2009 of INTERVENTION comprising a Special Symposium on »Financial instability and crisis« and a Special Issue on »Current relevance and perspectives of Keynesian Economics«.

A Special Issue like this is not possible without the joint effort of many people. Therefore, we would like to express our thanks to the authors for their cooperation and the referees for spending time on improving the articles. Moreover, the assistance of Sebastian Türk in the editing process was – as in the years before – very helpful; many thanks for this. For organisational and financial support of this Special Issue and of the conference we are grateful to the Hans Boeckler Foundation.

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