Financial Crises and Countermovements.

Comparing the times and attitudes of Marriner Eccles (1930s) and Mario Draghi (2010s).

Erik S. Reinert, Tallinn University of Technology, Estonia
& The Other Canon Foundation, Norway.[1]

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"But the emerging regimes of fascism, socialism, and the New Deal
were similar only in discarding laissez-faire principles"
Karl Polanyi, The Great Transformation, the Political and Economic Origins of our Time, New York, 1944, page 244.

In *The Great Transformation* Karl Polanyi (1886-1964) argued that 'for a century the dynamics of modern society was governed by a double movement: the market expanded continuously but this movement was met by a countermovement checking the expansion in definite directions. Vital though such a countermovement was for the protection of society, in the last analysis it was incomparable with the self-regulation of the market, and thus with the market system itself'.[2] In the eyes of Polanyi, the forces promoting *laissez faire* have been met by a countermovement attempting at protecting society and the *common weal*. As Fred Block puts it 'What we think of as market societies or "capitalism" is the product of *both* of these movements; it is an uneasy and fluid hybrid that reflects the shifting balance of power between these contending forces'.[3]

At the present time of writing – almost seven years into the financial crisis – the "countermovements" so far created against this crisis of capitalism have arguably been weaker and of a different nature than the countermovements found by 1936, seven years into the 1929 crisis. This chapter looks into these differences, and argues that the main explanation

[1] The author is grateful to Rainer Kattel and Andrea Saltelli for useful comments and to Olga Mikheeva for editorial assistance.
[2] Polanyi, Karl (1944), *The Great Transformation,* New York: Rinehart & Company, page 130.
[3] Block, Fred (2008), "Polanyi's Double Movement and the Reconstruction of Critical Theory", in *Revue Interventions economiques / Papers in Political Economy*, No, 38, downloadable at http://interventionseconomiques.revues.org/274

may be somewhat vaguely summarized by referring to a completely different Zeitgeist in economic theory and social attitudes then and now. In order to be more concrete and to provide an illustration to the difference in Zeitgeist, we contrast the personal experience, attitudes and values held by two men in power at the peak of the crises: Marriner Eccles – head of the Federal Reserve from 1934 to 1948 – and Mario Draghi – who will be at the helm of the European Central Bank from November 1, 2011 until October 31, 2019.

The writings of Marriner Eccles show us a man whose point of reference was the poverty and lack of freedom his father suffered in the slums of Glasgow. Eccles' goal was – at the depth of the crisis of the 1930s – to achieve economic security for his fellow Americans with a minimum loss of freedom. From Italian newspapers and interviews we find a similar ideology-defining reference point in Mario Draghi's philosophy: His stated goal is to prevent the kind of inflation that struck Italy in the 1970s and decimated Draghi's fortune as a young orphan. Eccles' background as an extremely successful industrial entrepreneur AND banker – working with both own money and other people's money – contributed to his holistic understanding of production and finance, whereas Draghi's – with a background in academia, politics, and banking – misses the experience both from the world of production and from the "own money" perspective.

To the Polanyan perspective of countermovements, this chapter first adds the complementary perspectives of Harold Innis (1894-1952) and Thorstein Veblen (1857-1929). This is followed by brief accounts of the lives and careers of Marriner Eccles and Mario Draghi. Then follows an attempt to analyze the political origins of Southern European monetary "irresponsibility". Then the chapter moves on to analyze the effects of the high inflation in Italy of the 1970s and 1980s – the fate so dreaded by the EU – from Draghi's perspective in the financial sector and my own from the world of production in the same country during the same period. We find in spite of the high inflation – or rather due to the relative pricing of capital and labor – "irresponsible Italy" in the 1970s and 1980s actually experienced a higher growth of real wages and industrial production than did "responsible" Germany"

The chapter closes with a brief discussion of the quote from Polanyi which heads the chapter. The quote states the fact that in the 1930s – along the whole political axis from communism via Rooseveltian New Deal to the fascists – there was a distrust of *laissez-faire*, including the need to control the financial sector. Today the whole political axis from the European right to the European left leans almost exclusively on more than one generation of neo-classical economics. In this theory, the financial sector – and with it financial crisis – are absent. What "everybody" understood in the 1930s, very few understand now.

1. Countermovements: Adding the Perspectives of Thorstein Veblen and Harold Innis.

I have argued elsewhere that economic thought is cyclical, [4] theory itself being subject to a Polanyian "double movement". Historically theories at high levels of abstraction which eliminate all frictions and differences in the economy – almost by definition producing arguments favoring *laissez-faire* – alternate with less abstract theories that highlight the factors that the very abstract theories leave out. In other words, economics oscillates between what Thorstein Veblen called *esoteric* knowledge – abstract and prestigious, but fairly useless for solving practical problems – and pragmatic and *exoteric* knowledge – based on facts and experience, which carries little prestige. In a Veblenian perspective the present-day "surprising non-death of neoliberalism" – as one book title puts it – is due to the "stickiness" of esoteric theories, strongly reinforced by the vested interests of capital investing heavily in maintaining the domination of esoteric theory, where financial crisis cannot happen. Regardless of their political inclination, neo-classical economists therefore tend to become useful tools in the service of the financial sector. A well-known Norwegian economist recently argued that economists were as much to be blamed for the financial crisis as medical doctors were to be blamed for bacteria.

Canadian economist Harold Innis suggests that scientific fashions of what Veblen called esoteric and exoteric knowledge follow a pattern, and in his scheme it becomes clear that scientific fashions may be driven by what Veblen dubbed 'vested interests'. I would argue that sectors of the economy may actually be collecting rents from irrelevant economic theories, as the financial sector now does due the failure of mainstream economics to model the tensions between the financial and the real sectors in a relevant way. Without reference to Veblen, Innis sees that abstract science, communicated in *Latin,* gets more and more abstract, monopolizes knowledge and enters into alliances with the political elites (with Veblen's *vested interests*). [5] Today's *Latin* would be mathematics, and today a *de facto* alliance exists between mainstream (neo-classical) economics and the financial sector. This alliance comes to an end only when a sufficient number of people speaking the *vernacular* (i.e. not Latin or mathematics) understand that alliance between the politicians and the high priests of ECONOMIC knowledge. This would – in Polanyi's language – trigger the countermovement.

A fascinating aspect of Innis' vision of the cyclicality of science is that he sees Western Civilization again and again being saved by knowledge that for a time only survives in the periphery, in near-defunct theoretical paradigms. To take an example from today's financial crisis: US economist Hyman Minsky (1919-1996) was for a long time a lonely voice when he claimed that 'it' – a severe financial crisis – could happen again. As Innis would have

[4] Reinert, Erik S. (2012a), "Economics and the Public Sphere: The Rise of Esoteric Knowledge, Refeudalization, Crisis and Renewal', Social Science Research Center Berlin (WZB): Berlin, 2012, http://publicsphere.ssrc.org/reinert-economics-and-the-public-sphere/ also published as 'Economics and the Public Sphere', The Other Canon Foundation and Tallinn University of Technology Working Papers in Technology Governance and Economic Dynamics, No 40, 2012. Downloadable on http://hum.ttu.ee/tg/

[5] Innis, Harold (1951), *The Bias of Communication,* Toronto: University of Toronto Press.

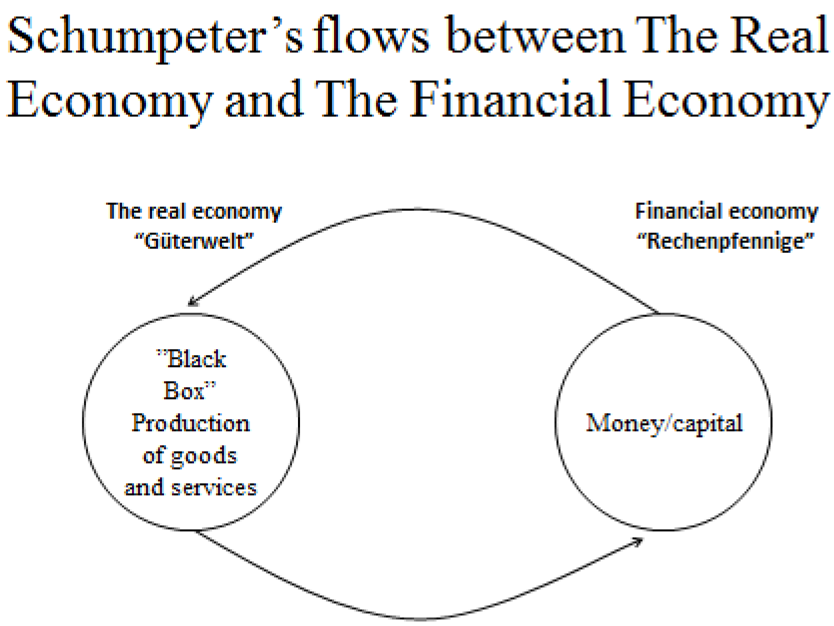
predicted, Minsky's *exoteric* economics only survived in the academic periphery: at Jan Kregel's intellectual homes, the University of Missouri – Kansas City, the Levy Institute at Bard College in New York State, and – more recently – Tallinn University of Technology. Here, the *vernacular* of experience-based economics is spoken.[6]

The Innis pattern of scientific cyclicality has a parallel in Minsky's 'destabilizing stability', one of the mechanisms that lead up to a financial crisis. As economic booms and good times last for long periods, bank routines become less and less cautious, until one day the loans that should not have been granted default in large numbers and return with a vengeance producing economic crises that could not be foreseen by the tools employed by the mainstream of the profession. In the case of economic theory this destabilizing stability is expressed when, in good times, theory gets more and more abstract assuming away more and more of the factors that are important in real-life economics. Starting in 1848, Ricardian economics, with the absence of a financial sector, slowly gave way to theories which explicitly included a financial sector. This happened along the whole political axis, from Marx to the left via social democrat Rudolf Hilferding to Keynes and Schumpeter more to the right. With the return of Ricardo-based neoclassical economics, the important distinction between the real economy and the financial sector – rendered in Figure 1 – had been assumed away from the theoretical edifice.

Veblen completes the picture of double movements by adding the theoretical level of abstraction of a theory as an important variable. The movement towards the common good needs a theory at a lower level of abstraction, an exoteric theory that accounts for more factors that does esoteric theory such as neo-classical and mainstream economics. Just as the hunger in Paris which started the French Revolution could not happen in theory – this impossibility was clearly pointed out by the Physiocrats [7] – a financial crisis could not happen in a theory that did not sufficiently account for the basic dichotomy between the financial and the real economic sector as that expressed in Figure 1.

[6] I refer to this experience-based tradition of economics as The Other Canon of economics.
[7] See Kaplan, Steven, *Bread, Politics and Political Economy in the Reign of Louis XV*, 2ND EDITION, London: Anthem, forthcoming 2014.

Figure 1.



2. Crisis: Mario Draghi (ECB 2011-2019) and the Failing Countermovement based on Finance.

> "You can therefore rest assured that I am personally and not only professionally committed to delivering price stability".
> Mario Draghi to *Der Spiegel*, October, 2012.

Whereas Adam Smith and David Ricardo disregard the important distinction between the real economy and the financial sector, this important distinction is of course an old subject in the continental European economic tradition. The distinction hails back to biblical times, and to 14th Century philosopher Nicholas Oresme, and – as is being rediscovered – frictions between the financial and real sectors of the economy were important in the context and teachings of Martin Luther.[8] As just mentioned, closer to our days, economists from the far left to the far right all agreed on the importance of this distinction. But, founded on principles and priorities of the 1991 Maastricht criteria, European Union economic policy is at the moment – until his term expires on October 31, 2019 – in the hands of Italian economist and former Goldman Sachs banker Mario Draghi with one single mandate: to control inflation.

[8] See Rössner, Philipp Robinson, "Burying Money. The Monetary Origins of Luther's Reformation", *The Other Canon Foundation and Tallinn University of Technology Working Papers in Technology Governance and Economic Dynamics*, No. 54, 2013. Downloadable on http://hum.ttu.ee/tg/

In the Spiegel interview with Mario Draghi, quoted above, the head of the ECB confesses to having personal interests in the matter of inflation. The interview runs like this:

> SPIEGEL: At the start of Monetary Union, Germans were promised that the ECB would behave like a second Bundesbank, the country's central bank. Many people here now speak of a new Banca d'Italia, which tolerated double-figure inflation rates in the 1970s.
>
> Draghi: I consider such accusations, to put it mildly, inelegant. For two reasons: in the 1970s, the Banca d'Italia was not independent. Today, the situation is completely different. *But there is also a personal reason. Because of inflation, my family lost a large part of its savings at that time. You can therefore rest assured that I am personally and not only professionally committed to delivering price stability*.[9]

At the age of 16 – in 1963 – being the eldest of three siblings, Mario Draghi lost his father, and shortly after also his mother.[10] He became the head of the family that included his sister Andreina, now an art historian who made important Mediaeval discoveries in Rome, and Marcello, today a businessman.

The early 1960s was the period when real interest rates in Italy briefly became negative (Figure 2), and later – during the 1970s – it is clear how the inflation rate would eat away at the capital invested in Treasury Bonds (BOT, or Buoni del Tesoro) which are the traditional safe investment vehicle in Italy (the data used in figure 2). In the worst year the annual loss would be more than 15 per cent. The decline of the traditional treasury bonds (BOT) as a preferred investment vehicle pushed the Italians into markets demanding more financial sophistication, like shares and bonds. This would lead to Ponzi schemes and financial fraud – like Parmalat and Cirio – and Draghi's enemies in Italy would make him partially responsible for the loss suffered by small investors. Looking at figure 2, it is easy to understand how the young orphan Draghi came to hate the inflation that was eating away at the capital belonging to him and to his siblings.

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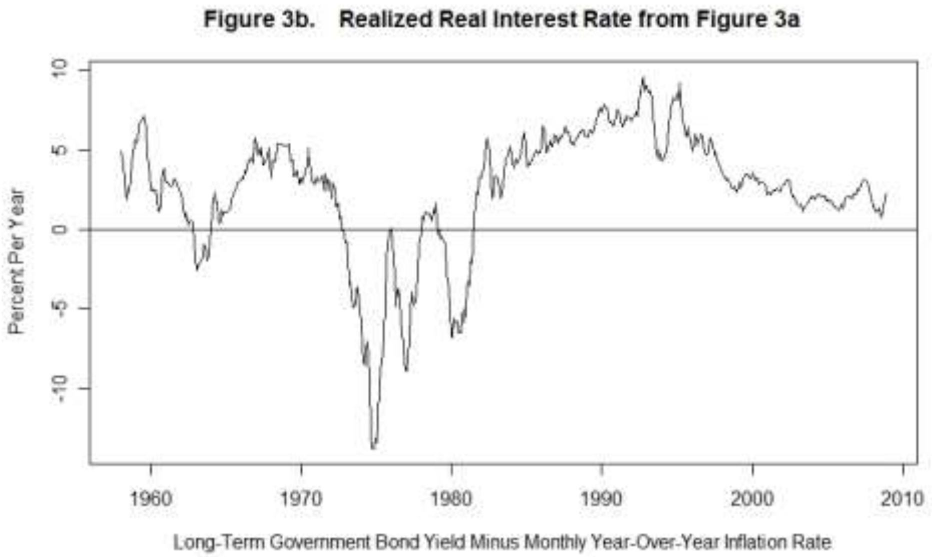
[9] Interview in *Der Spiegel* October 29, 2012. http://www.spiegel.de/international/europe/spiegel-interview-with-ecb-president-mario-draghi-a-863971-2.html Italics added.

[10] The source of the personal information about Draghi is mainly from http://cinquantamila.corriere.it/storyTellerThread.php?threadId=DRAGHI+Mario

Figure 2: Italy. Real Interest Rates.



In 1970, at the age of 23, Mario Draghi graduated from the University of Rome La Sapienza, where he had studied under Federico Caffè, a well-known Italian economist. The year after – on a stiflingly hot summer day in 1971 in Rome – Draghi for the first time showed the determination which would create an impressive career. At *Palazzo Koch*, which houses *Banca d'Italia* – the Italian National Bank – the bank's governor Guido Carli was receiving Franco Modigliani, an MIT professor who was very influential in Italy and who would later receive the Nobel Memorial Prize in economics. Outside the door a young graduate was engaging in small talk with the governor's staff. It was Mario Draghi who wanted to speak to Franco Modigliani, whom he had never met before. The bank staff tried to talk him out of the idea, but Draghi walked up to Modigliani as he left Carli's office, and without hesitation asked him to be admitted as a Ph. D. student at Massachusetts Institute of Technology.

"You have absolutely no chance" was the dry first response from the MIT professor. As Modigliani's wife, Serena Modigliani, would recall many years later: "not only was the deadline for admission long past, but Mario did not even have the tuition money". But to his first line, Modigliani added something: "You don't have a chance unless we can change that stupid law". The law referred to was one that prevented Italian students from using education grants to study abroad. They managed, and Mario Draghi went to study at MIT.

Five years later, in 1976, Mario Draghi completed his Ph. D at MIT, with a thesis entitled *Essays on economic theory and applications*.[11] Draghi's theses – with a heavy overload of mathematics partly attempting to "prove wrong" what intuitively is right – clearly qualifies to Thorstein Veblen's description of *esoteric knowledge*: highly prestigious but practically useless. If Draghi had kept the promise to his professor Federico Caffè – that his only

[11] Available at http://dspace.mit.edu/bitstream/handle/1721.1/54263/04184143.pdf?sequence=1

ambition was to become a university professor – the damage would have been considerable less than it proved to be.

Only two years after having been appointed to the Chair of International Economics at the University of Florence, in 1983, we find Draghi as counselor to the Italian Ministry of Treasury. At the age of 37, in 1984, we find him as executive director at the World Bank, where he remained until 1990. From 1991 to 2001 Draghi worked as a General Director of the Italian Treasury.

In this position, wielding his power and apparently without much discussion, Draghi supervised the sell-off of most of the Italian public sector companies – the industrial holding company IRI, the telephone company SIP Telecom, the electricity company ENEL and a large number of banks – and then moved on to the private sector and became vice chairman and managing director of Goldman Sachs from 2002 to 2005.

In 1992, before starting the massive sell-off of the Italian public sector, Mario Draghi had met the top brass of the international finance community onboard the royal yacht of Queen Elizabeth II. It is in the combination with high finance[12] that Draghi's esoteric knowledge becomes so damaging to the real economy. Selling out the Italian public sector which – particularly the holding company IRI (The National Industrial Reconstruction Company) – had served the reconstruction of Italy after World War II extremely well, Draghi's meeting with high finance started a political turmoil where Draghi was accused of being a well-paid crony in charge of selling off Italian assets to foreign bankers. In 2008, Francesco Cossiga – Christian Democrat, former Prime Minister and Former President of Italy – accused Draghi of being an evil speculator (*vile affarista*)[13], and rejected the idea that Draghi had a future in Italian politics because he would "sell of everything to his American friends".

With the rest of Europe having scant knowledge of Mario Draghi's previous track record, in 2011 he was elected President of the European Central Bank with a term running from November 1, 2011 to October 31, 2019. As announced on the bank's webpage "The ECB is the central bank for Europe's single currency, the euro. The ECB's main task is to maintain the euro's purchasing power and thus price stability in the euro area. The euro area comprises the 18 European Union countries that have introduced the euro since 1999."

This mandate is based on the treaty negotiated in Maastricht in December 1991, where the monetary stability was the basis for the criteria to join the Euro. This narrow focus on monetary issues rather than a balanced view, also including employment and GDP levels, created the foundation on which the present EU crisis rests. On his way back from that 1991 Maastricht meeting then German Chancellor Helmut Kohl decided that as many countries as possible should join the Euro. Mario Draghi – with his abhorrence of inflation and his newfound background in *high finance* – was the ideal person to carry through the perhaps

[12] Or «haute finance» as Polanyi curiously puts it in "The Great Transformation»
[13] The interview, in the programme *Unomattina*, is found on youtube in different wrappings.

politically well-meaning but in the end economically disastrous visions of Helmut Kohl. Perhaps Germany wanted to "make good again" the disasters of WW I and WW II, but the country is presently ending up like a parasite riding high on an undervalued DM and – to different degrees – overvalued currencies in the rest of the Euro countries.[14]

Interestingly enough, Draghi himself has issued a written warning against monetary power coming into the hands of the wrong people, writing:

"The currency…is one of those precious institutions which may become malignant if used to the advantage of organized groups".[15]

This is an exact description of what happened to the Euro in the hands of Mario Draghi: the currency is used to the advantage of the financial sector – *of high finance* – in the disfavor of the real economy, where the German fear of inflation and obvious benefit from the present situation are used to increase the power of the financial sector.

3. Crisis: Marriner Eccles (Federal Reserve 1934-1948) and the Countermovement based on Production.

"The unifying idea …in the account is to state by illustration how democratic capitalism can avoid the evils of boom and depression, which, if unchecked, can destroy the political and economic freedom we value"
From the introduction to Marriner Eccles' memoirs, *Beckoning Frontiers*, p. viii

In contrast to Draghi's difficult youth, Marriner Eccles (1890-1977) – who headed the US Federal Reserve during the pivotal years from 1934 to 1948 – came from a successful economic background as the son of a very wealthy businessman. What they have in common – also with so many other entrepreneurial men – is that they lost their fathers relatively yearly, Draghi at 15, Eccles at 22. Given their different backgrounds, one could have suspected Draghi to show compassion for the social suffering of the poor during a financial crisis, and Eccles not to. The opposite happened. From Eccles' biography it becomes clear why.[16]

Marriner Eccles, the long-term chairman of the Fed, uses the first chapter of his 499 page biography *Beckoning Frontiers. Public and Personal Recollections* (1951) to tell the story of his father David Eccles (1849-1912) and his road from the slums of Glasgow to great wealth in the United States, as a Mormon in Utah. Already in the first paragraph on the first page Marriner Eccles sets the scene for his own thinking about capitalism:

[14] See Kregel, Jan (2011) Debtors' Crisis or Creditors' Crisis?, Levy Institute, Public Policy Brief 121, http://www.levyinstitute.org/publications/?docid=1431

[15] Draghi writes this in reference to economist and first President of Italy, Luigi Einaudi: "La moneta, nella sua visione (i.e. Einaudi's), è una di quelle istituzioni preziose che possono però divenire perniciose se usate a vantaggio di gruppi organizzati", Draghi, Mario "Prefazione", in Gigliobianco, Alfredo (2011), *Luigi Einaudi: Libertà economica e coesione sociale*, Collana Historica della Banca d'Italia, Bari, Laterza, p. vii.

[16] Eccles, Marriner (1951) *Beckoning Frontiers. Public and personal Recollections*, New York: Knopf.

> David Eccles, my father, was born in Glasgow, Scotland, in 1849, seventy-four years after Adam Smith published *The Wealth of Nations*. English political economy, shaped in imitation of what Smith wrote, had by this time produced the conditions Dickens used as a backdrop for his novels, and Marx and Engels used for their *Communist Manifesto.* That is to say, it was a political economy whose base was formed by a dense mass of slum dwellers.

The setting is clear: ideas based on the principles of Adam Smith – imitations of what Smith wrote – had led to a world of massive slums. Eccles' work at the Fed can be seen as one unified effort to prevent the United States from sliding into the conditions that his father, and so many of his fellow Americans, had left Europe in order to leave behind.

Using the Polanyian term which starts out this chapter, Marriner Eccles described Charles Dickens' accounts of human suffering and Marx' and Engels' *Communist Manifesto* as countermovements against the evils of capitalism. Eccles' own work was to represent a theoretical countermovement in what I have called "civilizing capitalism" which gathered momentum in the United States starting in the 1890s.[17] It is this countermovement which seems to be seriously lagging in today's context.

Not that Eccles disregards Herbert Spencer and the doctrines of social Darwinism that had dominated the United States, he specifically refers to them: "As between half-brothers, we had tested ourselves by the nineteenth-century doctrine of the survival of the fittest and I had survived".[18]

In the chapter entitled *The Pit*, Eccles recalls his feelings in 1930, one year into the depression. Faced with the responsibilities towards family, friends and the community at large, all of whom saw to him as a leader and who all expected him to find a way out of the pit. He describes how he at times felt "the whole depression was a personal affront".[19]

He heard grass-root talk that the government ought to do something. "But why the government?...Is it not the sum of all individuals?" he writes, and then continues:

> Or, granting there is a difference, what specifically should the government do?
>
> For instance:

[17] Reinert, Erik S. (2013)"Civilizing capitalism: good and bad greed from the enlightenment to Thorstein Veblen (1857-1929)", real-world economics review, issue no. 63, 25 March 2013, pp. 57-72, http://www.paecon.net/PAEReview/issue63/reinert63.pdf
[18] Eccles, *op. cit.*, p. 51.
[19] Eccles, *op. cit.*, p. 54.

> What should be done in a situation where the dollar was so painfully sound when measured by its power to buy goods and services that when prices fell and unemployment increased, the dollar somehow got 'sounder'?
>
> What was to be done in a situation such as I faced in our lumber mills, where we would operate at a loss even if men worked without pay?
>
> What was to be done by our banks when loans on our homes, farms, livestock, and securities or to business and industrial enterprises could not be paid because values had drastically declined?
>
> What was to be done when the pressure on the banks to 'get liquid' so as to meet depositor claims caused a situation where the liquidation of debts made it impossible to pay off debts?
>
> What was to be done when men on farms and in the cities, who needed each other's goods, were stranded on opposite river banks without the consumer purchasing power by which they could navigate a crossing for trading?
>
> These were not academic questions. They were intimately connected with day-to-day dangers, and particularly the danger of a sudden run on the banks. It didn't matter where the run started. A weak bank that closed its doors could create community tensions of a sort that could close the doors of sound banks as well.[20]

Admittedly with the clarification that comes with writing many years later, Marriner Eccles sees the cumulative causations and maelstroms of a depression. Later in the book, he specifically stresses that – in spite of having been called a Keynesian – his ideas were homegrown. When he arrives in Washington in late October 1933, starting his career there, Eccles muses: "the concepts I formulated, which have been called "Keynesian", were not abstracted from his books, which I have never read. My conceptions were based on naked-eye observation and experience in the intermountain region. Moreover, I have never read Keyne's (sic) writings except in small extracts up to this day".

It was the initiative of Rexford Tugwell – the "Red Rex" of the New Deal – that brought Marriner Eccles to Washington in 1933. Eccles, by the way, does not show much enthusiasm for the politically radical Tugwell. But clearly the common-sense approach from Utah Mormon Eccles – with an extremely successful track record both morally and in banking and industry – hit home with the New Dealers surrounding President Roosevelt. Eccles went back to Utah, but just over a month later he received a telegram from Washington, instigated by the new Secretary of the Treasury, Henry Morgenthau, Jr., urging him to return to Washington. Having been hired by Morgenthau as his special assistant to deal with monetary and credit matters, Eccles moved to Washington in February 1934. In August Morgenthau suggested him to the President as the new Governor of the Federal Reserve, and on November 10 President Roosevelt announced his appointment as Governor of the Federal Reserve.

[20] Eccles, *op. cit.*, p. 55.

A dark horse from the provinces was bound to meet opposition in Washington. In order to win the confidence of the business community, the White House issued a statement with a thumbnail sketch of Eccles' business holdings and banking concessions, written as though it were a stockholders' report. This unique appendix to a presidential appointment, explains Eccles, "was designed to offset the charge then current that every official of the New Deal was a crackpot and a visionary, unqualified to hold public office because he had never met a payroll". [21] Eccles had met payrolls, large ones, and his banks had come through the depression years without a loss to its depositors. This was a perfect case of business experience with high morals and ideals meeting idealistic bureaucrats and politicians who did not have the experience, but shared the goal of a common good.

Before appointing him Roosevelt made the difficult time ahead clear to Eccles, commenting: "Gossip has gotten around about my considering appointing you the new Governor. It is only fair that you should know what formidable opposition has developed as a result. However, I don't give a damn. That opposition is coming from the boys I am not following". To which Eccles replied: "Well, Mr. President, if you don't give a damn, I don't see why I should".[22]

The most frequent quote from Eccles, also used on Wikipedia, is:

> As mass production has to be accompanied by mass consumption, mass consumption, in turn, implies a distribution of wealth ... to provide men with buying power. ... Instead of achieving that kind of distribution, a giant suction pump had by 1929-30 drawn into a few hands an increasing portion of currently produced wealth. ... The other fellows could stay in the game only by borrowing. When their credit ran out, the game stopped.

Marriner Eccles was a key person in the successful working of the New Deal. Contrary to today's advocates of austerity, Eccles understood – as every businessman should – that production required demand. This is the same intuitive understanding that Henry Ford had 15 years before the 1929 crash, when he introduced the famous 5-dollar a day wage: that increasing productivity in his plans required higher wages in order for a sufficient increase in demand to meet the higher productivity. This is the intuition that today has been killed off by supply-side economics and neoclassical economics, which is based on what Schumpeter once called "the pedestrian view that it is the accumulation of capital *per se* that propels the capitalist engine".[23]

4. The Origins of Southern European "Irresponsibility" and Inflation.

[21] Eccles, *op. cit.*, p. 176.
[22] Eccles, *op. cit.*, p. 175.
[23] Schumpeter, Joseph A. (1954), *A History of Economic Analysis,* New York: Oxford University Press, page 468.

In what is also a personal vendetta against inflation, Mario Draghi – ostensibly in the interest of all Europeans – has sealed the escape valve that once saved the world of production in many Latin American countries from the excesses of finance: sovereign default. This becomes clear when one looks at previous inflationary period in many Latin American countries.

I once had a professor in Latin American economic history – Tom Davis at Cornell – who distinguished between three types of inflation: in addition to the traditional *cost-push* and *demand-pull* he added *democratic overspending* (which of course would feed the two former mechanisms). His third type of inflation, he emphasized, was a sign of democracy, but of a democracy under stress. Democracies overspending to live up to their promises and achieve more than they were able to created inflation, dictators had no such problems.

Davis was essentially right. Hyperinflation was first observed in the most democratic countries in Latin America, in Chile and in Costa Rica, often created through government spending with an urban, middle class and pro-industrial bias. Coupled with land reform – for a long time supported by the United States – the democratic overspending may be seen as part of a Cold War context where "modernization" and increased wealth were to stop communist advances in Latin America, just as the Marshall Plan had so successfully done in Europe. As in Europe, the free trade was sacrificed in the name of industrialization and increasing wages and living standards. On the contrary Latin American dictatorships like those of Paraguay under Stroessner or Haiti under Duvalier did not have inflation, but stable exchange rates.[24] Neither did they have any industrialization.

It is in this perspective we need to understand the "irresponsibility" of the Southern EU periphery, and the origins of the inflation that decimated the savings of the Draghi family, an inflation which Mario Draghi – until October 31, 2019 – has as his sole mandate to prevent.

Decades of terrorism both from the right and from the left dominated Italian politics during the period Italians call *gli anni di piombo* or the "years of lead (leaden years)"[25]. Highlights of this terrorism were the killing of Prime Minister Aldo Moro by the left in 1978 and the 1980 massacre at the Bologna railway station by right-wing political forces. Under these circumstances – much like in Latin America – social peace could be achieved only through compromises that necessarily would produce increased inflation. The government made more commitments than could be met with domestic resources, given the constraints of the then ruling Exchange Rate Mechanism. Inflation was, in a real sense, the price of democracy and peace.

Before EMU (Economic and Monetary Union) was converted into the straightjacket enforced by the Euro – the "irresponsible" inflationary systems in Southern Europe took on the same logic as in Latin American democracies: inflationary budget spending led to falling exchange rates and to depreciation.[26] In Europe this took place within the ERM. In this way

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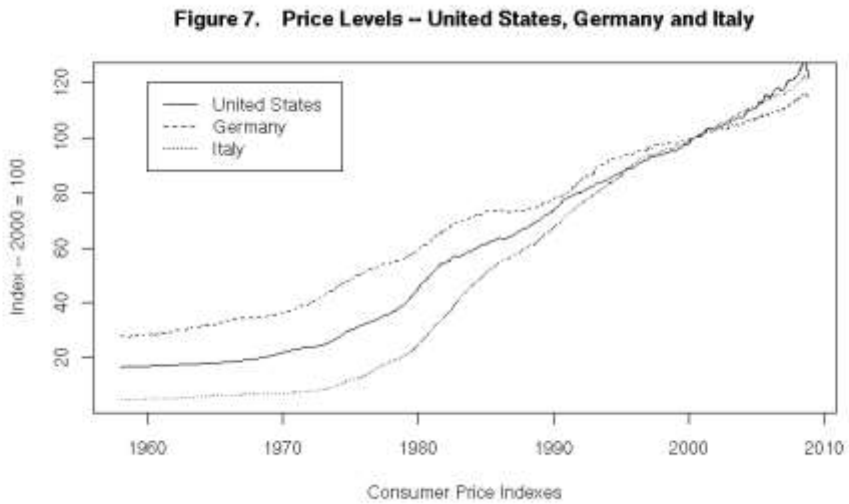
[24] The Haitian Gourde was pegged to the dollar at 1 to 5.
[25] http://en.wikipedia.org/wiki/Years_of_Lead_(Italy), accessed April 6, 2013.
[26] This section builds on Reinert, Erik S. & Rainer Kattel (2013) 'Failed and Asymmetrical Integration: Eastern Europe and the Non-Financial Origins of the European Crisis', The Other Canon Foundation and Tallinn University of Technology Working Papers in Technology Governance and Economic Dynamics, No. 49, 2013.

international competitiveness of the real economy was saved. Government debt also tended to be issued in local currency, so government debt was devalued with the currency. Figure 3 shows the developments of the price levels in "responsible Germany" and "irresponsible Italy" starting in the late 1950s. It is shown how the United States – where the Federal Reserve from 1970 to 1978 was under the leadership of Arthur F. Burns – on the whole followed a middle path between Italy and Germany.

Figure 3: Price Levels: US, Germany and Italy compared.



Source:http://www.economics.utoronto.ca/jfloyd/modules/infl.html

As they would normally evolve, these mechanisms would lead to a default on debt in foreign currency, so frequent devaluations and defaults on debt were necessary correction mechanisms in the „cycles of irresponsibility". Flexible exchange rates were an integral part of keeping the system going. Introducing the Euro – i.e. a fixed exchange rate – had the effect of completely sealing the safety valve in the system. In the EU periphery the choice is now either to force down real wages further, which will cause more migration, or devaluation and Sovereign default. Sooner or later „something's gotta give", either the population or the exchange rate. In other words, either people would have to leave the EU countries where the fixed exchange rate and the overvalued currency destroyed the competitiveness of the real economy – as more than 20 per cent of the Latvian population has done – or the exchange rate has to be changed.

My colleague Rainer Kattel and I have, in several papers[27], argued that the core of the problem of the EU lies in the asymmetrical form of integration – instant integration between

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http://hum.ttu.ee/tg/. Forthcoming 2014 in Jeffrey Sommers & Charles Wolfson (eds.), The Contradictions of Austerity. The Socio-Economic Costs of the Neoliberal Baltic Model, London, Routledge

[27] Reinert, Erik S. & Rainer Kattel (2004), 'The Qualitative Shift in European Integration: Towards Permanent Wage Pressures and a 'Latin-Americanization' of Europe?' Praxis Working Paper no. 17, Praxis Foundation, Estonia, 2004. Downloadable at: http://www.praxis.ee/index.php?id=402&L=1&tx_mmdamfilelist_pi1[showUid]=198&cHash=30287c5917, Reinert, Erik S. & Rainer Kattel (2007) 'European Eastern Enlargement as Europe's Attempted Economic Suicide?' *The Other Canon Foundation and Tallinn University of Technology Working Papers in Technology Governance and Economic Dynamics* no. 14, 2007. http://hum.ttu.ee/tg/

non-equals – which started with the triumphalism of the 1990s, after the Fall of the Berlin Wall. As we see it such asymmetrical processes of integration created huge structural imbalances within the EU, which for almost a decade were offset by the convergence of interest rates resulting from a common currency. This convergence produced declining interest rates in Southern and Eastern Europe, as well as in Ireland, and fuelled public and private asset bubbles, growing demand for imports of goods and services from the core European economies, chiefly Germany[28]. However, with the highly peculiar financial structure of the euro zone – a single currency but segmented sovereign and private capital markets, no uniform-deposit guarantee scheme and the absence of a real lender of last resort – as well as with a highly uneven national economic restructuring in terms of presence or lack of Schumpeterian dynamics, such imbalances were bound to lead to huge problems as the Union essentially became a mix of a Ponzi scheme (sustaining private sector income growth by increased borrowing) and beggar-thy-neighbor policy, in the form of German wage constraints throughout the 2000s.

The internal dynamics of Europe is in some ways a microcosm of the same type of problems confronting the entire global economy governed by the WTO rulebook and, perhaps even more importantly, bilateral free trade agreements: the key problem of uneven development in the productive structure, especially in the de-industrialized or non-industrialized peripheries, is marginally – if at all – addressed in the European Union. Similarly to the European situation, flaws in the productive structure are temporarily 'offset' by financial inflows and/or asset bubbles, engendering Ponzi-scheme-like dynamics where further growth relies on continuing inflow of foreign savings[29]. The poorly developed industrial structure in respective peripheries fails to create the necessary demand that would create a high value-added service sector. Economic problems in the peripheries are solved by the migration of labor, rather than by addressing their structural and financial requirements for development. Contrary to mainstream discourse in economic integration that predicts a convergence towards 'factor-price equalization', asymmetrical integration may lead to 'factor-price polarization' – that is, increasing gaps in real wages and growing inequality.

The logical sequence of overspending, devaluation, and in the end sovereign default, was first challenged in Argentina in the 1990s until the devaluation of 2002. In an attempt to keep the peso-dollar exchange rate at 1 to 1, real wages in Argentina – from peak to trough – fell by 40 per cent. Industry slowly died out and Argentina saw a primitivization of the real economy[30], in the suburbs of Buenos Aires horses and mules reconquered roads where there were once cars, and social problems were rampant. In Celso Furtado's terms, Argentina's overvalued currency caused a break-down in the capacity to import.

The European Union – under the direction of Mario Draghi – seems determined to lead the European periphery down the same path as Argentina. Italian and French press has started to flag the Nobel Economics Laureates who agreed that the Euro is a folly, and as of January 14 the number has reached seven[31]. As in any Ponzi scheme, the default in some form will

[28] Kregel, Jan (2011), "Debtors' Crisis or Creditors' Crisis?", Levy Institute Public Policy Brief 121, available at http://www.levyinstitute.org/publications/?docid=1431.
[29] Kregel, Jan (2004), "External Financing for Development and International Financial Instability". G-24 Discussion Paper No. 32. October 2004.
[30] Reinert, Erik S. (2007), *How Rich Countries Got Rich... and Why Poor Countries Stay Poor*, London, Constable. Chapter 7: "Globalization and Primitivization. How the Poor get even Poorer"
[31] http://scenarieconomici.it/7-premi-nobel-p-krugman-m-friedman-j-stigliz-a-sen-j-mirrless-c-pissarides-j-tobin-leuro-e-una-patacca/

eventually have to come anyway, the question is how much damage and human suffering will be caused before default is admitted.

To the folly of the Euro another folly was added: IMFs total underestimation of the multiplier effect from austerity, of reducing government spending. This second folly has been admitted by the IMF: seemingly the low multiplier estimate was set by ideology rather than by science.[32] This is indeed the problem of neo-classical economics, which – regardless of the intentions of those employing the theory as a tool – in effect is mathematized neoliberal ideology. As Jan Kregel once put it: “What we see is not an alternative economic theory, what we see is repenting neo-classical economists”. That economists are sorry for the damage caused by employing their theories will, of course, not bring us any further.

5. Why the Inflation which scares Draghi so much actually was a Blessing for the Italian Real Economy.

Being two years younger than Mario Draghi, I spent much of the 1970s and 1980s in Italy building up and running my own industrial plant producing color cards – i.e. color sampling material – for the paint and automotive industries. Thus I experienced first-hand the apparently “irresponsible” inflationary process from the point of view of an actor in the real economy. In this section I look at the development of Italian industry in these turbulent years – the years which decimated the capital of young Mario Draghi – from the point of view of technology: what the crisis did to the technology level and real wages.

Figure 4. Inflation Rates in United States, Germany and Italy.

As can be observed in figure 4, the inflation rate in irresponsible Italy was very much higher – up to almost 25 per cent – than in Germany, where the maximum level reached was below 8

[32] For a comment on this see http://www.washingtonpost.com/blogs/wonkblog/wp/2013/01/03/an-amazing-mea-culpa-from-the-imfs-chief-economist-on-austerity/

per cent[33]. Figure 4 again includes data for the United States, which in terms of inflation represented an intermediate case between Germany and Italy.

In August 1971 the convertibility of the dollar into gold was suspended, hailing the coming of inflationary spirals that were also nourished by an inflow of petrodollar. At the time, as an economics student at the University of St. Gallen, I was put in charge of the project building a factory and preparing for production in Bergamo in Northern Italy, about 350 kilometers across the Alps. The factory was employing a different technology – originally bought from a Chicago company – from that which at the time dominated in Europe and dominated exclusively in Italy. I was supervising the project for a Norwegian company where my family had shares, but as time progressed – until I sold out in 1991 – I found myself running the plant as its sole owner. My experience with the real economy of Italy during the years of "irresponsibly high inflation" is therefore very close and hands-on.

From a traditional point-of-view the overall picture looked far from responsible. Instead I soon found that it brought some advantages. For example, the currency risk was always in my favor. I could put in bids for international orders in foreign currency – no one wanted prices in lira – and invariably when the job had been done, a few months or even a year or two later, my company could cash in on *agio*, when payments arrived we always received more in lira than what my original cost estimate in lira had been. In England – where ICI was one of our customers – I was helped by Margaret Thatcher's creed that a strong nation needed a strong currency. In some segments of the color card business, the appreciation of the pound vs. the lira almost drove my English competitors out of business.

The negative side of the positive currency effect was of course that my costs producing in Italy were rising in local currency. Through the infamous *scala mobile* – the "escalator" – Italian wages were indexed to the consumer price index. The political agreement around this was a result of the cold war tensions between the political right and left in Italy. Initially I too thought this was just an irresponsible inflation-creating machine. But then I started thinking about what incentives the situation created for me as a businessman, I had to reconsider. The key to the incentive-system which inflation created for Italian industrialists is found in Figure 1: the behavior of the real interest rate in Italy.

When my company became operative late in 1972, the real interest was plummeting and was very soon into extremely negative territory, soon hitting minus 15 per cent. My wage costs as well as the general prize level were rising sharply, while the cost of capital was hugely negative. As other Italian industrial companies I found myself frenetically buying machinery in order to use labor more efficiently. Whole operations which until then in this business, as by some natural law, have had to be done manually were now mechanized. This coincided with an impressive growth of the Italian machine industry. I found many of my specialized machine producers in *The Third Italy*, in the Emilia Romagna region. In the history of economic thought one can recall how English economic writers attributed the success of

[33] More detailed date is found in Beyer, Andreas et al. (2009), "Opting out of the Great Inflation. German monetary policy after the break-down of the Bretton Woods", *European Central Bank Working Paper Series,* No. 1020, March.

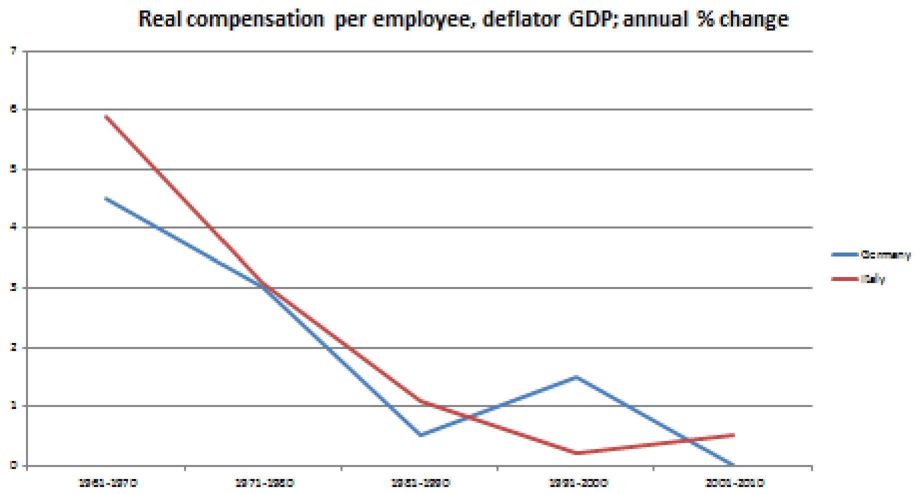
Holland in the 17th century to the low cost of capital. This situation was repeated in Italy in the 1970s.

With inflation, the mortgage on my factory building continuously shrank as a percentage of the market value, and the building could in addition serve as collateral for the purchase of more machinery. In addition – seen from my point of view in Northern Italy – the otherwise not very creative central government in Rome contributed to the technological development unleashed by highly negative interest rates and increasing wages. The Italian government introduced subsidies of 30 per cent to companies that invested in machinery based on modern electronic technology.

Figure 2 compares the irresponsible inflation rate in Italy with the very responsible policy of the Germans. Figure 5 – below – however shows that in terms of increasing real wages, Italy consistently produced higher wage increases than did Germany both during the 1970s, the 1980s, and the 1990s. Not until the 2000s did Germany do better than Italy in terms of real wage growth.

It may of course be argued that the Italian boom had an element of catching-up with German industry. My point is that – from my point of view as a former Italian industrialist – this catching up was only made possible by the cost of capital being very cheap – in many years negative – and the price of labor correspondingly expensive.

Figure 5. Wage development in Germany and Italy, 1960-2010.



Source: Statistical Annex of European Economy, Autumn 2010, European Commission
Note: Until 1990, West Germany

This point – the role of high wages as a determinant for increased productivity – is not frequently mentioned. However, during the Great Depression a booklet was produced at the University of Heidelberg with the title *The Economic Importance of High Wages (Die* *wirtschaftliche Bedeutung hoher Löhne)*. This booklet makes this rather obvious, but often neglected, point:

> The consumer- and producer-interests of the worker: In economic life an apparently unbridgeable conflict of interests exists between producer and consumer. This is because the producer wishes to achieve as high prices as possible, while the consumer is interested in as low prices as possible.
>
> This conflict of interest is, however, considerably reduced through a broad "personal union" (*Personalunion*) of producers and consumers. In fact the pure consumer does not exist (except marginal exception), nor does the pure producer. Every producer must consume and every consumer is – in the long or the short term, and in one way or the other – connected with the progress of production.[34]

An unintended byproduct of the "irresponsible" wage policies in Italy during the tumultuous 1970s and 1980s – when my small industrial company grew about 30 per cent annually in local currency – was a national Italian policy that addressed the incarnation of the two roles of any person, that of the consumer and that of the producer, to the benefit to both, and to society at large.

The "end-of-history" and triumphalist *Zeitgeist* that characterized the Western world after the fall of the Berlin Wall, also dominated the Maastricht Treaty which was written in late 1991. With the death of communism the only threat to the Europe was seemingly defined as being inflation, and the Maastricht criteria for responsible behavior for nation-states focused virtually exclusively on factors that would determine inflation. In other words, on factors that would prevent European societies from overheating into inflation in good periods in a business cycle. Naturally – under the opposite conditions of a business slump – these Maastricht criteria would do nothing to improve the situation. They were criteria only made for "good weather". On the other hand – as we now see – in the hands of Mario Draghi as a representative of Polanyi's *haute finance* – the logic behind the Maastricht criteria is used to convert the financial sector from a symbiotic partner to the real economy a parasite reducing the size of the real economy.[35]

Within that framework, the "irresponsible" politicians that who produced what – from the point of view of the real economy – could be seen as an Italian *Wirtschaftswunder* were removed from any control of monetary policy. Instead the bankers' boys – Mario Monti and Mario Draghi – were put in charge. With the same single-minded focus on preventing inflation Mario Draghi was elected for a seven-year period, from 2011 to 2019. It is tempting to compare the length of Mario Draghi's term as a de-facto monetary dictator to the terms of

[34] Bauer, Wilhelm (1932), *Die wirtschaftliche Bedeutung hoher Löhne*. Heidelberg: Verlag der Weiss'schen Universitätsbuchhandlung, Published by Heidelberger Studien aus dem Institut für Sozial-und Staatswissenschaften. In Verbindung mit Alfred Weber, Emil Lederer und Carl Brinkmann herausgegeben von Arthur Salz, Band II, Heft 4, p. 56 (my translation).

[35] Se Reinert, Erik S. "Production Capitalism vs. Financial Capitalism – Symbiosis and Parasitism'. An Evolutionary Perspective and Bibliography", *The Other Canon Foundation and Tallinn University of Technology Working Papers in Technology Governance and Economic Dynamics*, No 36, 2011. (Original 1998) Downloadable on http://hum.ttu.ee/tg/

elected officials in the early Italian city states, at the dawn of modern democracy. Officials of the *signoría* of Florence were elected for two months, citizens elected to Venice' Council of Ten (*Consiglio dei Dieci)* were elected for 6 months at a time.

Not only has Mario Draghi been elected dictator for too long a time with the wrong mandate for the context Europe is in. There are also serious problems with present-day innovation policy of the European Union. Innovation tends to be seen as context-free cure-all, oblivious to the kind of mechanisms which brought so much innovation to Italy in spite of – or because of – the "irresponsible" inflation.[36]

6. Beyond Right and Left: Why is it that what "everybody" understood in the 1930s is hardly understood anywhere now?

As Karl Polanyi points out in the quote that heads this chapter, what communism, fascism and the New Deal had in common was a distrust of *laissez faire*. Virtually the whole political spectrum of the 1930s was united in two beliefs which separate them from today's mainstream: a) an understanding of the need to control the financial sector, and b) the need for an active industrial policy. An important question to ask during this financial crisis seems to me to be why the need to control the financial sector – once agreed by "all" – now no longer came to be seen as important. Here, it seems to me, is where we find the explanation for the missing countermovement promoting the common weal against the interests of high finance.

A main reason explaining the lack of countermovement is clearly the absence of a financial sector in English economics from Adam Smith to David Ricardo, on which neo-classical economics essentially builds. This theory provides a blind spot in terms of understanding how the financial economy instead of working in symbiosis with the real economy starts acting like a parasite. The intellectual high ground continues to be held by esoteric, prestigious but practically irrelevant, theories and the providers of these theories. The esoteric knowledge of the Mario Draghis of this world dominates, and there is no room for the likes of Marriner Eccles, whose exoteric (practical) knowledge (Phronesis) combined a deep practical understanding of both banking and industry with a genuine desire to improve the lot of his fellow men. Esoteric knowledge and "evil speculators" – as a former President of Italy characterised Mario Draghi – are in, while practical knowledge and idealism are out. This is the difference in Zeitgeist between the Great Depression and now, which is referred to in the introduction to this chapter.

[36] For a discussion of the defects of EU innovation policy, see Reinert, Erik S. (2006) European Integration, Innovations and Uneven Economic Growth: Challenges and Problems of EU 2005', in Compañó, R, C. Pascu, A. Bianchi, J-C. Burgelman, S. Barrios, M. Ulbrich, I. Maghiros (eds.), *The Future of the Information Society in Europe: Contributions to the debate*, Seville, Spain, European Commission, Directorate General Joint Research Centre. Institute for Prospective Technological Studies (IPTS), pp. 124-152. Also published in The Other Canon Foundation and Tallinn University of Technology Working Papers in Technology Governance and Economic Dynamics, No 5, 2006. http://hum.ttu.ee/tg/

Another reason, I would argue, is the inability of Europe to clean up in the chamber of horrors of the 1930s and early 1940s. History now tells us that the "bad guys" – the communists and the fascists/Nazi – lost, while the "good guys" won. Lost is the dimension that the good guys who won in the US – the New Dealers – shared a common element with the bad guys: they understood both the need to control the financial sector and the need to build industry. This also explains why the "bad guys" to the right and left – fascism and communism – for such a long time managed to deliver high growth in the real economy. Having lost both the understanding of the need for a manufacturing sector and the need to control the financial sector – key elements of New Deal policies on both sides of the Atlantic – the West is now losing out to Asia which appears to have understood both.

The importance of the ugly European past only became obvious to me in the summer of 2008, when I was invited by the international movement Attac to speak at their summer school at the University of Saarbrücken in Germany. I was asked what I would like to talk about, and my reply was that I would like to talk about the relationship between the financial economy and the real economy. The immediate reply from Attac Germany was that in no way could I speak about this subject because it was anti-Semitic.

This reaction was logical only from a German point of view. There used to be a distinction between normal finance and what Polanyi called *haute finance*. The dustcover flap of Eccles' memoirs refers to *high finance*, the direct translation of the German term *Hochfinanz*. However, the term *Hochfinanz* and the discussion around finance achieved a taboo status in Germany after World War II [37]. A German colleague, a journalist covering economic issues, explains to me that *Hochfinanz* was a term he could not use due to its Nazi overtones. A German bookdealer lists a book with the word *Hochfinanz* in its title as available only to bona fide scholars because it contains Nazi propaganda. That may very well be the case, but that in the year 2008 it was still considered taboo to talk about the relationship between the financial economy and the real economy – without a hint of using the word *Hochfinanz* – came as a surprise. The political incorrectness that has surrounded the discussion of high finance is one reason why financial crises – once understood along the whole political spectrum – are so poorly understood today. In a strange way, the horrors of Holocaust have acted to deter and delay our understanding of the role played by the financial sector today.

The dangers of *high finance* were once understood – not only in Islamic economics as today – but all along the political axis from Marx and Lenin on the left, to social democrat Rudolf Hilferding – a Jewish scholar and politician killed by the Gestapo – to the more conservative Schumpeter and Keynes, all the way to Hitler's economists on the far right. The German distinction between *schaffendes Kapital* (creative capital) and *raffendes Kapital* (capital grabbing existing wealth) is a useful in understanding the type of money-making, or "greed", which is good and bad for society at large, but unfortunately these terms were created by persons too close to fascism.

[37] However, John dos Passos' novel *The Big Money* was published both in East and West Germany as *Die Hochfinanz*, Berlin: Aufbau-Verlag / Hamburg: Ruwohlt, both 1982. A recent publication about a Jewish society in Berlin also uses the term: Panwitz, Sebastian (2007), *Die Gesellschaft der Freunde 1792-1935: Berliner Juden zwischen Aufklärung und Hochfinanz,* Hildesheim: Georg Olms.

Schumpeter's differentiation between *Güterwelt* (the world of goods and services) and *Rechenpfennige* (the accounting units or tokens that inhabit the world of the financial sector) shaped Hyman Minsky's understanding of financial crises. He considered them as results of mismatches in the innovation capacity of the two spheres of economy, i.e. the innovative capacity of the financial sector far outstrips the ability of the real economy to use these funds in a profitable way. In present mainstream economics which – in contrast to virtually the whole political spectrum of the 1930s – fails to distinguish adequately between the financial and the real sectors, "the magic of the market" may easily deteriorate into a free ride for the financial sector to usurp the real sector of the economy.

The financial crisis is part and parcel of the same trend of de-industrialization which now hits the West. In this respect the present crisis in the First World – the financial sector growing at the expense of the real economy, accompanied by falling real wages – also has an important geographical dimension. It is the continuation of a development which started in the Third World – in the smaller Latin American countries and partly in Africa, in the 1970s, and hit the Second World very hard during the 1990s. Starting in 2007, "the chickens came home to roost" in the sense that the destructive influence of mainstream economics that had deindustrialized the First and Second World now hit the core of the Western economies.[38]

A countermovement protecting society against the present ravages of the financial crisis and de-industrialization would have been expected – using different terms – by Karl Polanyi, Thorstein Veblen, and Harold Innis. It seems the process is unfolding much more slowly than expected. It is still possible for Mario Draghi and his allies to save the financial sector – but not the real economy – while pretending to save "the economy". Both in Europe and the United States the countermovement is clearly hindered by the fact that – as Mario Draghi himself had warned – as quoted in section 2 of this chapter – that a currency "is one of those precious institutions which may become malignant if used to the advantage of organized groups".

If we are to believe in the mechanism suggested by Harold Innis, any future tipping point is related to a mechanism of an Emperor's New Clothes type. A misfit between the *Latin* theory of the ruling class and their high priests and reality is perceived by common people, by the *Vernacular.* A simultaneous overthrow of power and of science (of the vested interests and their overly abstract *Latin* science) takes place after a shock to the system. One example of this was the French Revolution, when the free-trade doctrine of the Physiocrats made it possible that more money could be made by moving wheat out of Paris, waiting for prices to rise, than from baking bread to feed the population of Paris. After this, the doctrine of the Physiocrats was – for all practical purposes – dead everywhere except in the history books of economic thought. During the French Revolution, the 1848 revolutions, and the financial crisis of the 1930s, esoteric economic theories have created crises. As Harold Innis points out, these crises were only solved by resurrecting alternative, sometimes near-defunct, paradigms of knowledge that were only alive in the intellectual periphery. It is in this type of tradition we thank Jan Kregel for working so hard.

[38] For a discussion, see Reinert, Erik S (2012b). 'Neo-classical economics: A trail of economic destruction since the 1970s', real-world economics review, issue no. 60, 20 June 2012, pp. 2-17, http://www.paecon.net/PAEReview/issue60/Reinert60.pdf