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American Economies

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EVA BOESENBERG / REINHARD ISENSEE / MARTIN KLEPPER

Introduction

The topic of "American Economies" is as pertinent today as it was when the *German Association for American Studies*, (*Deutsche Gesellschaft für Amerikastudien, DGfA*) convened its annual conference with this title in May 2010. Yet, it was not only the financial crisis of 2008 with its repercussions, both in the US and abroad, that highlighted the interrelations between economics, culture and literature which are the subject of this volume. A number of scholars had begun to investigate the intersections between these discourses – in a manner that eschewed a simple Marxist base-superstructure model – much earlier. Foundational texts such as Kurt Heinzelman's *The Economics of the Imagination*, Nancy Armstrong's *Desire and Domestic Fiction*, or Deirdre McCloskey's *The Rhetoric of Economics* already appeared in the 1980s. In the late 1990s, Martha Woodmansee and Mark Osteen even identified a distinctive form of criticism devoted to these issues, which they termed *The New Economic Criticism* in a book with the same title.

Still, what has sometimes been called "economics and/in literature" has not exactly become a central concern of contemporary literary and cultural studies, nor do economists routinely reflect on the ways in which metaphors and narrative structures inform their macro- or microeconomic models. The joint discussion of economics, literature and culture in the context of one and the same conference was still uncommon enough to generate original questions and productive discussions. Some of the contributions to these spirited and thought-provoking debates are now assembled in the present volume.

The plural in the title signals that the conference – and subsequently this book – did not only address the circulation of financial resources (economics 'proper,' so to speak), but specifically the ways in which pecuniary exchanges and investments interact with other economies, such as economies of language, narrative economies, economies of the

gaze or of desire. As Peter Schneck, president of the *DGfA*, noted in the conference program: "…the complexity – and thus also probably the unpredictability – of economic trends, developments and cycles per se is due to the fact that these developments are never purely economic, but always social, political, and cultural as well." The social, cultural and psychological dimensions of economic activities have been discussed more frequently in the wake of the 2008 financial crisis – so much so that one might even diagnose a "cultural turn" in economics. Thus the time seems particularly fruitful for intensifying transdisciplinary exchanges on "American economies."

In his **Opening Lecture**, James K. Galbraith reflects on the nature of the financial crisis following the failure of *Lehman Brothers* in September 2008. Galbraith reviews four different narratives entertained by economists over the past twenty to thirty years, which offer models for the operation of the economy. The first model, which was seen to fail with the *Lehman Brothers* bankruptcy, was what Galbraith calls "The Grand Illusion of the Great Moderation." This model assumed the sustainability of equilibrium among self-stabilizing free markets supported by hands-off policies, which the purists within the paradigm would interpret in a more orthodox way than the pragmatists, who tended to allow the fiscal authorities a (moderate) stabilizing contribution from time to time. The second model, which Galbraith calls the "Marx-Lenin-Luxemburg critique," pointed to the increasing inequality within the United States and the growing deficit in trade and current account between the US and other countries and predicted a crisis that would ensue from a crash of the dollar. Both of these models, Galbraith suggests, did not pay sufficient attention to monetary production and to the relationship between the public and private sectors in the US.

According to Galbraith, a third model put forward by Wynne Godley and Hyman Minsky, which goes beyond these two symmetric views, has come closer to describing what really happened. Godley and Minsky concentrated on the intrinsic instability of the financial sector. Thus, Godley argued, a government surplus would eventually lead to unsustainable deficits in the private sector. Minsky showed that a period of stable economy leads to increasingly speculative positions of economic players. While Galbraith acknowledges the explanatory force of this model, he suggests that a further, much ignored factor has to be taken

into account: the importance of the public sector itself and the significance of private-public partnerships for the development of the American economy. In his own narrative of the American economy Galbraith thus deemphasizes the significance of "truly free markets" and emphasizes the power of those who "manage and control the public-private sectors." In this context he calls for a much more rational discussion of the role of regulation in the economy: a role which should not be construed as a burden, but rather as a necessary function that ensures safety.

The section on **Economics, Culture and Theory** begins with Julie Nelson's article "Gender, Metaphor, and American Economies," in which she looks at the question how cultural patterns of thinking about gender persist in influencing economic rhetoric. She argues that certain metaphorical ways of understanding the world have created a set of gender-influenced cognitive biases that have prevailed in Anglo-American economist thinking up to the present. In her analyses of the historical origin of gendered metaphors for economic life she reveals the dualism built into associations of economies with machinery and masculinity. Pointing to cognitive psychology she illustrates how gender stereotyping has evolved into a fundamental cognitive paradigm that underlies long-established automatic patterns of thought. In an effort to develop a more flexible sort of thinking, Nelson introduces the concept of a "gender-value compass" that replaces dualistic "either/or" thinking with "both/and" patterns. Applying this concept to current discourses of economics in the United States, Nelson explains how key figures in American economist rhetorics, such as "rugged individualism" or "free and self-regulated markets," are metaphorical associations of economies with machinery and masculinity that are grounded in neoclassical economic thinking of the late 19th century.

"Discourses of Value: Reading Literature through Economics and Vice Versa" by Eva Boesenberg calls for the expansion of an interdisciplinary dialogue between economics and cultural studies in order to achieve not only a more comprehensive understanding of the intricate interdependence of economic affairs and cultural production in general but to generate a "more differentiated, self-reflexive research in the two fields" in particular. Based upon a review of the commonalities between economics and literary/cultural studies, Boesenberg discusses the nexus between financial and cultural capital as a major theoretical premise for

such an interdisciplinary exchange. Her reading of literature through economics and vice versa elucidates the productivity of the respective disciplinary approaches in terms of providing significant insights into the (gendered) construction of narrative perspectives, symbols, characters as well as language in literature on the one hand, and the function of tropes, metaphors, resources, and positionality in economist discourse on the other. Similar to Julie Nelson's observation about the persistence of gendered metaphors in economic theory, Eva Boesenberg points to the "masculinism of the financial sector" and its concomitant gender-biased dualism. She proposes, however, to read current economic rhetorics as racialized constructions as well. Sustained attention to perspective and positionality, she argues in conclusion, is instrumental for making interdisciplinary exchanges between economics and cultural studies productive.

The article "Economics and Narrative," a co-production of literary scholar Winfried Fluck and economist Fabian Lindner, argues that narratives play a crucial role in economics. As Mark Twain's and Charles Dudley Warner's novel *The Gilded Age* already showed in 1873, the value of a businessman's property may be directly linked to stories circulating about him – miraculously extending his credit on one day and completely drying it up the next. In stock market reports, narratives attempt to make sense of past economic developments, offering interpretations that "explain and justify investments and movements that have already taken place" (Fluck and Lindner, 98). Even more significantly, narratives about the future performance of assets may become self-fulfilling prophecies when they succeed in convincing investors to either buy or sell. The question which of the competing narratives about future developments will prevail thus has direct financial repercussions.

Ironically, the significance of narrative increases with the growing gap between financial markets and the 'real' economy, Lindner and Fluck suggest, since "market fundamentals" have become increasingly obscure for such financial instruments as derivatives, for example. The usage of mathematical models leads to greater, rather than less, reliance on narratives. Most importantly, however, these narratives endeavor to uphold the belief in the rationality of markets – even though, as Akerloff and Shiller have shown, it was precisely this belief that contributed decisively to the genesis of the 2008 financial crisis.

In "An American Economy of Nature" Hannes Bergthaller explores the idea of *oeconomia naturae* and its conceptualization in US environmentalist Aldo Leopold's *A Sand County Almanac* (1949). Bergthaller's intention is to trace "a shared genealogy in which the fields of inquiry we today refer to as ecology and economy were merely different aspects of a single domain of knowledge." This domain, embracing both nature and the social order, was understood to be governed by the same "underlying principle of self-regulation or homeostasis" – in a nutshell: Adam Smith's "invisible hand." Departing from Donald Worster's book *The Economy of Nature* (1977), which claims that the idea of *oeconomia naturae* tended to justify exploitation and the instrumentalization of nature, Bergthaller suggests that Worster's plea to emancipate nature from human domination (and extol its intrinsic value) is itself rooted in the same liberal tradition as the concept of *oeconomia naturae*. He demonstrates this affinity with the help of Leopold's model of self-organization and its rejection of state intervention. In his conclusion, Bergthaller argues that this version of popular ecology is highly problematic and mystifying because it assumes that human economy "stands apart from and in opposition to the harmonious and stable operation of natural ecosystems."

"*Freakonomics* and *SuperFreaconomics* as an Introduction to Economics in the German EFL Classroom" investigates the pedagogical potentials of economic texts for teaching English. Maintaining that "economic thinking" constitutes a particular way of looking at the world and making sense of it, Carsten Albers relates knowledge about and insights into Anglo-American economies to the learning objectives stipulated in the English curriculum in German schools. His discussion of the selected texts addresses the relevance of empirical data as well as key terminology and concepts, such as macro- and microeconomics, game theory, or *homo oeconomicus*, for the development of cognitive skills, as students not only acquire knowledge about basic economic aspects and the respective vocabulary but "gain a first insight into the application of economic analysis." In addition, students are familiarized with a model of reasoning that makes use of rhetorical strategies different from literary or cultural texts that they are predominantly exposed to in the English classroom. Albers' didactic suggestions for teaching parts of the two texts in the advanced EFL classroom demonstrate that they

offer various opportunities for practicing skills of rhetorical analysis as well as of critical reflection in the foreign language.

Mary Pattillo opens the section on **Economics and Politics**, exploring the intersections of race, class, crime and the economy of public housing from a sociological vantage point. Taking as her example the city of Chicago, which, Pattillo argues, is a quintessential example of US housing policy and at the same time features a particularly polarized racial geography, she studies the neighborhood of North-Kenwood-Oakland on Chicago's South Side, focusing on the Cabrini Green and Robert Taylor Homes as well as the Ida B. Wells Homes. Pattillo's main interest is the discursive landscape "that justifies policies that demolish thousands of units of affordable housing" in the midst of a housing crisis which, obviously, especially hits low-income families. The "revitalization" of neighborhoods, which aims at gentrification, resembles, Pattillo contends, the policy of the French "revanchist city," in which the workers had been blamed for the decay of the city. In Chicago's case the poor, as well as racially, sexually or otherwise marginalized groups, are identified as the culprits. Criminalization, not only of individuals but also of buildings, precedes demolishing. "Once rid of the sign-posts of poverty, non-whiteness and crime," Pattillo concludes, "the rhetorical grounds easily shift to the new terrain of lifestyles, values, tastes, and behaviors."

Based upon a case study of Williamsburg in Brooklyn, New York City, Eric Erbacher provides insights into recent imaginaries of urban city spaces in the United States in "Selling the American Inner City – Narrative Constructions of Urban Imaginaries at the Turn of the Millennium." His analysis of mass print media such as the *New York Times* and real estate publications aims at identifying prevalent narratives that redefine formerly decaying inner-city neighborhoods in an effort to increase their appeal as attractive residential locations. Erbacher highlights three key elements that these urban narratives employ: creativity, edginess, and diversity. Drawing on Bourdieu's notion of cultural and symbolic capital, he demonstrates how these elements have impacted recent constructions of place-based identity that often obscure the historical, social, or physical characteristics of inner-city neighborhoods and, in the case of Williamsburg, project images of spaces "anchored in a romanticized and cleansed past." In these narratives, Erbacher con-

cludes, consumption of urban space is equated with the promise of a lifestyle in which class and ethnicity as markers of identity and belonging are substituted by an idealized imaginary of (middle-class) self-fulfillment.

In the article "A Cheer for Free Labor Cotton" Mischa Honeck returns to the Haskell-Davis controversy about the complicity of antislavery activism in the expansion of liberal capitalism. While Thomas Haskell had argued that it was class interest which first and foremost unfettered humanitarian sensibilities, David Brion Davis argued that British and American abolitionists' concern for "freeing the slave and converting the slaveholder to a proper work ethic" in effect justified cultures of materialism and cut-throat individualism. Honeck aims at complicating this picture and moving beyond the debate through "a more nuanced understanding of the multiple avenues on which commerce and reform interacted to make free-market capitalism the dominant form of production" and through a better grasp of antislavery reformers' ideas of consumer republicanism. Honeck's argument is that reformers saw politics, commercial activities, individual restraint, and civic virtue as fundamentally intertwined; as a result, even though their visions of citizenship often remained structured along the lines of class, race or gender, reformers did open up spaces of democratic participation. In order to demonstrate these interdependencies, Honeck explores two antislavery projects of the 1830s and 1850s: the free produce and free cotton initiatives.

"In 1984, a carbide accident in Bhopal, India affected more than half a million people." The plant which caused the catastrophe was owned by Union Carbide and was subsequently bought by the American corporation Dow Chemical (which owns Union Carbide today). Twenty-seven years after the catastrophe the victims have not been adequately compensated and the site of the accident has still not been cleaned up. Pia Wiegmink looks at a particular form of activism against Dow Chemical and big corporations in general, namely the media hoax – brought to perfection by the activist-artist collective *The Yes Men.* Wiegmink studies the aesthetics of the hoax (in which, among other activities, members of the group posed as Dow Chemical officials to the media), viewing the activism as a performance in which "theatrical and political 'acts' coincide and which thus represents a performative intervention into the manufacture of news." In addition, she explores the political implica-

tions of the hoax, drawing on Whiteness studies and the problematic of speaking for others. As a result, Wiegmink's article touches on issues of aesthetic form, political agency, subject positions, protocols of the media as well as the actual reception of the hoax in different parts of the world.

In the section on **Health and Political Economy**, Marc Priewe's article on "Healing Trades: Gender and the Medical Marketplace in Puritan America" sheds light on the intersection of medical providentialism, religion, and gendered power hierarchies in colonial New England, with a particular focus on "how medical women operated within larger economic and social exchange relations." Maintaining that medical providentialism functioned as a dominant cultural trope in the colonization of New England, Priewe offers the cases of Elizabeth Davenport, a medical healer of the colonial elite, and Anna Edmunds, who practiced surgery in a private "hospital" in her husband's tavern, to explain how women offering medical services could not only partake in the economy of the medical marketplace in colonial New England, but through their healing skills could also accumulate "cultural currency" in terms of relative social and political power (as manifested, for instance, in the authority they were frequently assigned by courts in the New England witch trials). Yet, as Priewe concludes, the roles that women played in the medical marketplace as practitioners and disseminators of medical knowledge on the one hand and as protagonists of creating communal support networks on the other, were nevertheless anchored in the persisting gendered power asymmetries in Puritan America.

Katja Schmieder's "Weird Economies: Fictionalizing Reproduction, Medicalization, and Gender" explores the popular genre of the medical thriller. The genre, Schmieder suggests, negotiates a "crisis," or rather, "turning point" (Paula Treichler) in US childbearing marked by medicalization (childbearing as hazardous to women's health), technologization and commodification. This crisis or turning point is conceptualized in three divergent narratives: the medical, the feminist, and the economic. Focusing on Michael Palmer's bestselling thriller *Natural Causes* (1994) and Margaret Cuthbert's *The Silent Cradle* (1998), and drawing on Michel Foucault, Susan Faludi, Barbara Katz-Rothman, Bonnie Fox, Rayna Rapp, Paula Treichler and others, Schmieder argues that the novels in question "employ pregnancy and childbirth as a lens through

which they discuss and criticize medicalization and its discourses as entailing technologization and commodification – in short, economization." Moreover, she suggests that medicalization is shown to be an effect of "shared ideas about gendered realms and thought patterns in obstetrics and gynecology." The achievement of the popular genre, Schmieder argues, is to integrate the three divergent accounts of the crisis through fictional narratives.

Focusing on plays about AIDS, specifically Larry Kramer's *The Normal Heart* (1985) and Tony Kushner's *Angels in America* (1995), Sabrina Huettner discusses the critiques of "individualism as a social and economic ideology" they advance. Kramer's controversial drama targets "the political establishment, the medical establishment, the media; and the gay community's reluctance to organize." In *Angels in America*, it is lawyer Roy Cohn, himself afflicted by AIDS, who epitomizes Cold War Republicanism with his power-mongering and his unwillingness to consider political change, let alone a redistribution of resources. His eventual admission "that the system he adheres to is ultimately unfair and antisocial," that the US is "no country for the infirm," reveals the failure of the excessive individualism he preached before. In different ways, then, the plays "deconstruct the workings of capitalist society and culture and thus serve as constant reminders of the fatal consequences of an unrestrained kind of capitalism."

In "Obama's Health Care Reform: Mission Accomplished?", Christian Lammert evaluates the outcome of the health care legislation of the Obama Administration in the context of the fierce political battles in the US Congress and the controversial public debates that have accompanied the reform. Considering the major factors that have contributed to the crises of the US health care system before the reform, he argues that it was primarily the cost factor, in tandem with the overall political climate in the United States after the 2008 elections, that made new health care legislation possible. Due to the fragmented character of the political institutions, the long-established health care policies and, most importantly, misinterpretations, the *Patient Protection and Affordable Care Act* has met with strong political opposition and public rejection. The so-called "public option" and "insurance mandate" in particular, have caused a deep partisan divide in US Congress and a stark polarization of the American public. Considering these developments, Lammert concludes that Obama's health care legislation has only par-

tially achieved its goal as it is merely an important first step in reforming the health care system in the United States. In the final analysis, he maintains, cost control, coverage, and Republican opposition remain the crucial obstacles to making it a lasting success.

The final section of the book addresses **Economies of Literature** ranging from the seventeenth to the early twenty-first century. Narratives of piracy such as A. O. Exquemelin's *Buccaneers of America* (1678/84), Alexandra Ganser argues, are frequently read as "a critique of the mercantilist, proto-capitalist social order in the making and an alternative to contemporary European labor relations." In contrast, an economics of piracy seems to promise "luxury for everyone," turning sailors into "gentlemen of fortune" and constructing the "New World" as "a site of greater freedom […] [and] unimaginable economic possibilities." Yet such utopias are deeply flawed, Ganser suggests, because they remain complicit in indigenous enslavement and the triangular trade that involved enslaved Africans as well. While the "romance with piratical economies" may thus be usefully mobilized to "question and challenge existing social and economic injustice," their implication in slavery and the exploitation of indigenous peoples severely limits their power as utopian economies.

Johannes Voelz observes the American essayist, lecturer, and poet Ralph Waldo Emerson on the lyceum stage. Starting from historian Charles Sellers's suggestion that Emerson validated the capitalist order by, in effect, commodifying nature and spiritualizing the market on the lecture platform, Voelz takes a second look at Emerson's activities within the lyceum movement. The lens through which he looks at Emerson is that of the audience, namely newspaper reviews of Emerson's lectures in the context of popular speech in the nineteenth century. Voelz suggests that arguments in the line of Sellers's assertion are rather reductive. He points out that while Emerson neither offered an alternative to the market, nor invested the market economy with moral authority, he transformed morality into an experience to be had by the individual. By transforming morality into experience, Voelz asserts, he gave it a dimension "that was fleeting, imaginary, and irreducible to the social and economic order of things."

In her analysis of "Discourses of Money in Literature by Antebellum 'Factory Girls,'" Katja Kanzler suggests that the *Lowell Offering*, a

newspaper published by employees of the Lowell textile mills, mobilizes financial resources discursively "to authorize the precarious subject position of the factory girl and to assert her cultural equality with […] middle-class women." Focusing on their free time and highlighting activities such as writing and reading, many texts claim the concept of "leisured femininity" – generally considered a prerogative of the middle class – for their authors. By discussing their consumer choices in great detail, the texts also include the workers in a discourse of "republican consumerism." By doing so, however, they also point to the limits of such consumerist citizenship – the circumstance that the young women are excluded from full participation due to the limited amount of money at their disposal.

MaryAnn Snyder-Körber's "Gift Money: *Nightwood* and the Funding/Form Logics of Late Modernism" discusses the ramifications of patronage in the case of Djuna Barnes's *Nightwood* (1937), whose genesis had been supported by a monetary gift from Peggy Guggenheim after Barnes's application for a grant from the Guggenheim Foundation had been turned down. The resulting text ostensibly repaid Guggenheim through the dedication, but complicated its usage in her project of distinction via provocation through its complex negotiation of Primitivism, "Jewishness," and its overall opacity. "The ending stalls the gift-giving machine," Snyder-Körber writes, "by paying back in an inscrutable form which seemingly conforms to the letter of the agreement, but whose spirit suggests evasion. Thus, obligations are kept on the side of the (new) receiver and the giver, once the recipient of the gift, buys herself free."

American economies – like other economies – are traditionally premised on scarcity. In *The Mad Man* (1994), Samuel R. Delany however projects what Dorothea Löbbermann terms "Pornotopic Economies" that are based on excess. Set among the homeless of New York, people who are themselves considered "excess" or "waste" from a perspective of profit maximization, the text links an economy of the abject to the gift and to recycling in their sexualized exchanges of bodily fluids and solids. Opposing an economy of prostitution with its notion of the scarcity of sex, they interact with the sole purpose of giving each other pleasure, parodying the commodification of sexuality by buying each other for a penny. This is matched at the stylistic level by the narrative's verbal excess that erodes the boundaries between the significant and the

banal, thus questioning the foundations of other narrative styles, such as realist fiction. While the novel does not propose a utopian alternative to capitalism, it thoroughly interrogates the principles of exclusion on which current economic arrangements are based.

Taking the double meaning of "belonging," its reference to both ownership and a sense of "fitting in," as her point of departure, Laura Bieger investigates economies of place, community, and property in Edward P. Jones's *The Known World* (2003). Drawing on Henri Lefebvre's concept of space as social production, she argues that the novel maps a social order in which each subject position "is tainted by the faults and contradictions of its conception," and that such a mapping in fact revises this social geography. The text, she concludes, "persistently sets community over the individual." Among the aspects that render *The Known World* particularly instructive are a complex "narrative mode that is ordered by principles of space," a multiplicity of perspectives, and the simultaneous attention to (at least) two axes of inequality: "Its narrative exploration of the rivaling economies of property and community results in the depiction of a social texture that is troubled by economic inequality at least as much as by racial prejudice."

In his article "The Cost of Living in a Utopian Community: M. Night Shyamalan's *The Village*," Sebastian Schneider offers a reading of the movie oppositional to the mostly negative critique that has foregrounded its weak ending and content as well as its underdeveloped characters, dialogue, and story. Arguing that such a critique is mainly misguided by reader expectations that are based on Shyamalan's earlier movie *The Sixth Sense*, Schneider suggests a reading of *The Village* that investigates the possibility and impossibility of utopia in general, and at the same time contextualizes the movie's visual imaginations of utopia in the current cultural moment of post-9/11, early twenty-first century US-American society. With a special focus on the movie's three main characters this reading problematizes three economies that are at work in questioning the idea of utopianism in *The Village*: the economy of desire, egalitarian and communitarian economy and the economy of the village. Set against the cultural moment of the early twenty-first century these economies are viewed as critical reflections on the state of American society. Schneider concludes that *The Village* can rather be understood as an "ambiguous utopia" in that it employs a utopian model of

society as a means of exploring and critiquing the gains and losses of such a model in the light of contemporary social practice.

In conclusion, we would like to thank the persons and institutions who made the "American Economies" conference and the book possible – our sponsors, chief among them the United States Embassy in Berlin, Humboldt University, and the Department of English and American Studies at Humboldt University. Among the people who made it all happen were our colleagues in American Studies, Dr. Renate Ulbrich, Sigrid Venuß, Sunčica Ozretić-Klaas, Claudia Holler, Dr. Dorothea Löbbermann and Dr. Markus Heide; Dr. Martina Kohl of the US Embassy, with whom it was a delight to cooperate; the many students who gave generously of their time and energy, particularly our research assistants Carina von Krosigk, Jade-Yasmin Tänzler, and Max Wuttke; the Executive Board of the *Deutsche Gesellschaft für Amerikastudien*; and all of the presenters at the conference, whether or not their papers appear in this volume. For their active participation in the production of the book, we thank Carina von Krosigk, Sigrid Venuß, Romy Schreiber, Katja Linke, Simon Strick, Prof. Dr. Alfred Hornung, editor of the *American Studies* monograph series, and the staff of *Winter Verlag*, knowledgeable and helpful as always.

I.

Opening Lecture

JAMES K. GALBRAITH

The Great Crisis and the American Response

A Keynote Address to the German American Association for American Studies

My talk this evening will address the nature of the financial crisis in America and its relationship in particular to the role played over the last generation by the economics profession. The first theme of my remarks I've given a little subtitle; namely "The Grand Illusion of the Great Moderation" – a characterization of the last three decades in economic life, which gained a great deal of prominence partly because it was championed by the now incumbent Chairman of the Board of Governors in the Federal Reserve system, Mr. Bernanke, over the years.

The late 1970s and the early 1980s were an extraordinarily turbulent time. They were a time of sharply declining competitiveness of manufacturing and power of the trade unions, followed later in the decade by the collapse of the Soviet Union and associated governments, the opening of world commodity markets to a very significant degree, and the rise of labor intensive goods produced in China and their penetration in world markets. Consequently there was a global subsidence of the inflationary climate that had built up in the late 1960s and through the 1970s and into the early 1980s. At the same time, continuing financial instability including the crisis in Asia in 1997 and Russia in 1998 helped to promote the worldwide holding of US dollar reserves as a cushion against financial instability outside of the United States, with the result that for the United States itself this was a period of remarkable price stability and reasonably stable economic expansion.

The economics profession did not give these events the cosmopolitan interpretation that I just have. They rather reduced them to a story of the credibility of the central banks, specifically the Federal Reserve, of probity and responsibility on the part of the fiscal authorities of acceler-

ating technological change, coupled with the changing demands on the labor market; all of which were characterizations of causal relationships which very well could have happened inside of any closed economy. Thus the economists created a mental model of self-stabilizing free markets and hands-off policy makers motivated to do the right thing – full of good intentions and primarily dedicated to maintaining an overarching climate of price level stability so as to permit the forces of the free market to reach their maximum efficiency.

Arguments between economists largely resolve themselves to a debate between the purists, who held that essentially no government intervention in the economy was required, and those who professed a slightly more pragmatic bent and who argued that from time to time it might be useful also to have a stabilizing contribution from the fiscal authorities to offset external shocks and other forces that might, from time to time, cause a disturbance in labor markets. In my opinion, this view came to be a very widely held one in the economics profession right up into 2008, when the American Economic Association was sponsoring sessions with the broad and confident title, "How Did The World Come To A Consensus On Monetary Policy" (Goodfriend 2007).

I find a little irony in this because one of the ostensible great contributors to the climate of the great moderation was the change in Federal Reserve reporting procedures instituted in the middle 1970s under what came to be known as the Humphrey-Hawkins process; whereby the Chairman of the Board of Governors reports every six months to both houses of Congress as to the goals and objectives of the Federal Reserve. The irony for me is that I happen to be the young staff member on the Banking committee of the House of Representatives who drafted the statutory language that went into the Humphrey-Hawkins Act, requiring that testimony. For seven or eight years I was the staff person who actually organized the hearings; wrote the questions and otherwise tried to antagonize the Federal Reserve to the extent that I could. As a young man in his middle twenties I did not think that I was contributing in any serious way to a revolutionary development in the stabilization of the global economy. But there were economists 30 years later who, if they had known of my role, would have been obliged to give me some credit for it.

It is not to say that everybody in advance of the crisis accepted this world view. There was a line of criticism which, for the purposes of this

conference I will call the Marx-Lenin-Luxemburg critique (I choose that to honor of course two distinguished Germans, one of them a former student of this university). But this view pointed to the dark side of the great moderation. A view that focused on the alleged, and indeed reported, stagnation of the real wage in the United States, particularly in relationship to productivity growth, and the implied deterioration of the distribution of income to wages in favor of profits. It emphasized the highly measured and much remarked-upon increase in economic inequality. It also drew attention to the consequences of the deindustrialization of the 1980s; in particular the large and ever growing deficit in trade and current account, and ultimately to what Rosa Luxemburg would have described as a crisis in realization, otherwise known as the problem of imperial overstretch, of the search for markets and the cost of that search particularly vividly brought to the world's attention in 2003 at the time of the American invasion of Iraq.

This story formed the basis of a left critique in and outside of the United States. It implied that there would be a crisis, as the situation was intrinsically unstable. But the crisis would come first and foremost from a rejection of US financial hegemony as a whole, and of the instruments of that hegemony; namely that assets denominated in dollars held around the world. It would come in other words from a crash of the dollar and ostensibly the beneficiary of that crisis would have to be the Euro and the European Union. Europe was in this view considered to be a contrasting sociopolitical entity with largely solid social democratic virtues, a relatively low military burden – in fact a turning away from militarism – and a relatively balanced set of international accounts. Thus, we did see a number of scholars who had misgivings about or indeed a radical dissent from the narrative of the great moderation.

But both of these views – the GM-view (Great Moderation) and the MLL-view (Marx – Lenin – Luxemburg) – showcase what is essentially a real-economy analysis. It is an analysis rooted in deep phenomena. It is rooted in a flexible labor market for example, for better or worse, one which could either be celebrated for its ability to deliver employment or castigated and criticized for its inability to sustain real wages. In an efficient capital market, which could be celebrated for bringing world production to its highest achievable level or castigated for its effects on American labor, in a process of class struggle and the search for realization of surplus in the MLL-view, neither of these perspectives focused

intently on the financial sector, on monetary production, on the monetary aspects of the production process, or the relationship of credit to output. Nor did they focus on the relationship between the public and private sectors in the United States. Therefore, neither came very close to having a truly useful and relevant analysis of what actually occurred.

There was, beyond these two broadly opposing and symmetric views, a third line of argument. A line I would associate as having been in descent from the ideas of John Maynard Keynes but in modern times largely articulated by two figures with substantially different perspectives on the Keynesian tradition. One of which was Wynne Godley, a former senior advisor to the treasury in the UK, Professor of Applied Economics at the University of Cambridge, and a great gentleman who recently passed away – and the other one was Hyman Minsky, a maverick economist to whom I shall return momentarily.

For example, Godley's approach was articulated in a series of papers (Godley and Wray, 1999) published by an institute with which I have an affiliation, the Levy Economics Institute of Bard College in New York. He argued above all that what was essential was to develop a macroeconomics in which the accounting relationships were consistently articulated so that their implications could not be ignored and so that the consequences of things happening in one part of the economy, for the balance sheets of other parts of the economy, would be fully taken account of in the analysis. One of the things that Godley's analysis pointed to, and I think very effectively, over this period was the unsustainability of surpluses in the government's budget. It is odd now to reflect on that, but in the late 1990s the United States government budget went into a very substantial surplus, and at the end of that decade, that end of the century, the then Secretary of the Treasury, Larry Summers, at a meeting which I attended, and on other occasions, was happily making the projection that if things continued the United States public debt would be totally eliminated in the space of maybe 13 years.

The essence of the Godley-analysis was that it was pointless to make such projections as things could not continue; the law once articulated by Herbert Stein, the Chair of the Council of Economic Advisors under Richard Nixon, would apply: Stein's Law famously states when a trend cannot continue it will stop (1997). The accounting obverse of the surplus in the public sector is a deficit in the private sector: a deficit which was manifested in the increasing accumulation of debts held by –

in the late 1990s – mainly private corporations in the technology sector, thus creating an obligation to make good by cash flow on financial commitments via increasingly improbable business plans. Obligations which in fact could not be honored and were not honored and were largely repudiated in the slump that followed the crash in the tech sector at the end – in the middle of 2000, and of course government budgets went promptly back into deficit at that time.

A second proposition of the Godley analysis related to the events that then developed over the course of the decade of the 2000s in the housing sector. Now a different part of the private sector went increasingly into debt. That is to say households increasingly took on mortgage obligations, draining the equity from their homes in order to support their consumption patterns; generating construction and other forms of economic activity. In doing so, they generated tax revenues which again narrowed (though they did not eliminate) the government budget deficit over this period, while sustaining economic growth through to around 2008. But the essential point was that this phenomenon, like the previous one, had definite limits, since private parties, unlike governments, do have to repay their debts.

Hyman Minsky's analysis (1992), although thoroughly compatible with Godley's, focused on the intrinsic instability of the financial sector, an instability from which the great moderation economists assiduously avert their eyes because it violates their notions of human economic rationality. But an instability which is nevertheless, in Minsky's view entirely the product of rational processes. Minsky's argument was that stability itself creates instability. A period of stable economic growth and low inflation generates increasing confidence on the part of economic players. They can come to believe that they are part of a new era; that things really have changed. They come to be discontented with the low rates of return that are available in ordinary investments and they therefore naturally seek the frontiers of greater risk. As they do that, they are seeking more and more to be on the tails of the distribution, trying to move the mean of the distribution, something which is quite difficult to achieve, and they move from a position where their financial obligations are what Minsky called hedge positions, completely fundable on the basis of historic cash flows, to speculative positions which must be refinanced in uncertain conditions at some future time. Conditions which may well be favorable to refinancing,

may well be sustainable for at least some time, but which are not guaranteed to be such depending upon basically unforeseeable macroeconomic circumstances at the time the debts come due.

The problem is that as more and more players move into the speculative territory in Minsky's analysis there is a second phase boundary, another transition from what he called speculative to what he called Ponzi finance. It is a situation in which financial commitments can only be met by further borrowings – a situation which is intrinsically unsustainable for a private party because no one will lend to someone who must borrow in order to pay interest on previous debts.

There were those who saw Ponzi processes at work. Dean Baker was a remarkable example, the head of the Center for Economic Policy Research in Washington, D.C., calling attention from the early part of the last decade to, among other things, the sign of extraordinarily high price-rental ratios in the public housing sector, high and rising, and clearly more likely to fall at some time than to continue to rise forever (2003). A great deal of credit has to go to those few people working in the Godley tradition, working in the Minsky tradition, who were brave enough to foresee the developments that had in fact occurred and whose framework was such that it put them quite close to the actual character of the disaster that unfolded from 2007 forward.

Yet, I do not think that either of these analyses gets quite to the heart of the issues. Hence, I would like to put before you a third line, which I think is broadly in descent from my father's work, in *The New Industrial State* (1967), on the role of the great corporation and its relationship to financial authority. It is a theme I took up in general terms in application to the situation that we now face, in the book that I published in 2008, which I entitled, *The Predator State*. The argument that I make was that it is fundamentally an illusion – an error – to view the United States economy as through the prism that was created in the Reagan period of free market principles, deregulation, privatization, and a detached benevolent government operating mainly through monetary stabilization. I would argue instead that when you examine the institutions of American economic growth, you find a dominant role in many important areas of the public sector, of the government, usually in a kind of partnership with private institutions.

This is found for example in the Social Security system, which provides a bulwark against poverty for the elderly but is supplemented by

many of them with private pensions and investments accumulated over the years in tax-sheltered private accounts. It is true of the health care system, which is a public system for very substantial parts of the population. Everybody over the age of 65 is covered by Medicare, a great many poor people are covered by Medicaid, veterans are covered by the Veterans Administration and public employees are covered. But the public sector in health care operates in a kind of antagonistic partnership, and a very difficult and inefficient partnership, with a private sector which continues to provide private health insurance largely through employers with, again, tax-favored programs. It is true of higher education, which in the United States has approximately equal weight with public and private sector institutions; a system of land-grant universities has produced some of the greatest achievements of American higher education over the years, but there are also fine private institutions which depend very heavily on tax-favored philanthropic contributions. It is also true in the housing sector, in the financing of privately owned homes; institutions that were created in the New Deal and reinforced in the great society, that gave us 30 year fixed rate mortgages, that gave us public institutions such as Fannie Mae and Freddie Mac. Institutions that were later privatized, which refinanced those mortgages, which created a structure in the 30s through the 70s and 80s of savings and loan institutions that were dedicated to housing finance and which operated under special interest-rate regulations, which permitted them certain advantages in the financial market place.

By and large I argue that these public-private collaborations, while inefficient and defective in important respects, have been very substantial successes. They are very robust politically and they achieve their stated objective, by and large, by facilitating very wide access to the services that they foster. In comparison with this system, particularly when one also considers the regulation of many other aspects of the economy, truly free markets are very small change. They barely exist. They are a fringe phenomenon. While they hold a particular pride of place in American political rhetoric, practical people in political life understand this. They understand very well, conservatives and particularly conservatives in recent administrations have understood very well, that the true sources of American power lie in those who manage and control the public-private sectors; particularly the public institutions in those sectors.

The conservative objective in modern times has not been to privatize them completely nor to eliminate them; but to place them in sympathetic hands, and thus to permit small amounts of vast cash flows to be directed to politically favored groups – this is what I call the Predator State. It is a state which is not intent upon restructuring the rules in any idealistic way but a state which does use the existing institutions as a device for political patronage on a grand scale. Closely related to this has been the general reinterpretation – something that has troubled me ever since I first encountered it in graduate school in the 1970s – of the role of regulation in an economy: a reinterpretation of regulation not as a function of necessity but as a burden, something that should be minimized to the extent possible, something where the benefits should always be weighed against the costs. I argue that this is a view which is sufficiently familiar to you – probably a great many of you do not even think to question it – but I would suggest that it is something which profoundly misconstrues what regulation is and does in an advanced society.

Now, in an advanced society with many sectors where there is the slightest complexity, with production processes using lengthy supply chains, regulation serves not as a burden on businesses but as a guarantee that the markets are viable; a guarantee that it is safe, reasonably safe, to participate in the commerce at hand. That it is safe to eat the lettuce; or buy the electric appliance; or to commit your savings to a financial institution – without the regulatory apparatus which pervades our lives most of the institutions in an advanced economic society, from airlines to banks, would not exist. Nobody would get on an airplane if they did not believe that the Federal Aviation Authority was controlling the airplanes; preventing them from running into each other in the sky. And nobody would put their money into banks if they did not believe that the regulatory agencies would have some authority over management of their deposits and insurance to protect them in the case of a run.

What happened in the last decade or so it seems to me is that the predator state took root in an especially dramatic way in the financial sector. Very clear signals were sent that previous laws, regulations, supervisory standards would be relaxed. This was not a subtle business. In the first term of the second Bush presidency, the chief of the Office of Thrift Supervision came to a press conference with a stack of federal regulations pertaining to underwriting standards – and a chainsaw. A

chainsaw. This, as I say, was not subtle. His more subtle colleagues brought pruning shears. The message was unambiguous: The cop was off the beat.

The result was that this industry was largely overrun by the most aggressive practitioners of the art of originating questionable mortgages. But I will go further than that. Of the art of originating mortgages that were plainly fraudulent. Where the lenders knew – certainly knew – that the borrowers would not be in a position to continue to service those mortgages past, at most, three or four years. Mortgages that were designed in fact to have that result. Mortgages that were made to people who could not document their incomes, with bad or nonexistent credit histories, against houses appraised by appraisers chosen by their willingness to inflate the value of those houses, and drafted in such a way that the initial rate was low enough to be serviced for a short period of time – so-called teaser rates – but with provisions that would cause the payments to double or triple in two or three years when the rates were reset to what was widely and accurately expected to be the prevailing higher interest rates imposed by the Federal Reserve.

But just to take one aspect of this: there is no non-fraudulent reason for a lender to knowingly accept an inflated appraisal on a house. There is no known explanation of that which can be construed as innocent. The business model is no longer one of originating mortgages holding them, earning income as home owners paid off their debts; it was one of originating the mortgage, taking a fee, selling the mortgage to another entity and taking another fee. In order for this process to function, the mortgages had to be packaged; they had to be sprinkled with the holy water of quantitative risk management models, they had to be presented to ratings agencies and blessed and sanctified, at least in part, as AAA. So that they could legally be obtained and acquired by pension funds and other fiduciaries who have an obligation to look at the rating but no obligation to do any due diligence beyond the rating.

As a result an alchemy was conducted. A great deal of lead was marketed as gold. It is fair to say that if it sounds like a criminal enterprise, that is because that is exactly what it was. There was a criminal language associated with it: Liars' loans. NINJA-loans. No income, no job or assets. It sounds funny but in fact this is why the world financial system has melted down. Neutron loans; loans that would explode killing the people but leaving the buildings in tact. Toxic waste; that part of

the securitized collateral debt obligation which would take the first loss. These are terms which are put together by people who know what they are doing and anybody close to the industry was familiar with those terms.

Again, there's no innocent explanation. I would argue that what happened here was an initial act of theft by the originators of the mortgage. An act exactly equivalent to money laundering by the ratings agencies who passed the bad securities through their process and relabeled them as good securities; literally leaving the documentation in the hands of the originators and never looking at it so computer files and underlying documents have never been examined except very, very sporadically. A fencing operation, that is to say the passing of stolen goods, by the large banks and investment banks which turned them, marketed them, to the likes of IKB and RBS and of course pension funds and other investors across the world. The reward for being part of this was of course the extraordinary compensation of the banking sector which permitted them extraordinary results at a point in which 40 percent of reported profits in the United States were earned in the banking sector by enterprises which paid about half of their gross revenues out in compensation. Very good work if you can get it.

This is not an isolated occurrence. It is something which is part of a well established historical pattern. That pattern has its identifiable characteristics and those characteristics are known in the economics literature. They were laid out very carefully in 1993 by George Akerlof and Paul Romer in an article entitled, "Looting: The Economic Underworld of Bankruptcy for Profit." That article was based upon the experiences of a decade previously in the savings and loans industry and the work of a criminologist by the name of William K. Black (1990) who identified the patterns and whose work not only led to the early recognition that the savings and loan industry was being taken over by criminal enterprises but to later prosecutions which put about 1,000 S&L insiders into federal prison in the early to mid 1990s and about 3,000 others including many commercial bankers.

The realization in the banking sector that this was the case occurred in August of 2007; everybody realized that their own assets were worth nothing and therefore they could not lend to each other without incurring the risk that they were lending to an insolvent party when the interbank loan market collapsed. Response of the government to that was and has

been called the Paulsen-Put - after Henry Paulsen who was Secretary of the Treasury at the time. An effort to defer realization of the losses if possible past the November 2008 elections. Thomas Ferguson and Robert Johnson in the *International Journal of Political Economy* lay this out in two very long articles (2009a & 2009b). They show that Paulson looked for ways to refinance the toxic assets and he found them in the federal housing agency and he found them particularly by persuading the great secondary mortgage market makers Fannie Mae and Freddie Mac to increase their holdings of toxic securities and sub-prime loans – attempting, as I said, to keep the game going a little bit longer. He did not succeed in keeping it going past the election. It came to a great crash in September of 2008 with the failure of Lehman Brothers and the result of that was this extraordinary effort, in which I had a role actually, to persuade the Congress to pass the Troubled Asset Relief Program, TARP, in early October of 2008 effectively forcing the Democratic leadership of the Congress to validate a massive rescue effort for the financial institutions that was being undertaken and had been underway for a year in the Republican administration.

It was effective and largely successful, at least in some ways. It quelled a panic which might well have produced truly catastrophic results. But it achieved this success at the price of a larger failure: at the expense of forestalling a restructuring and reform that would get at the root of the financial crisis. It is also fair to say that the machinations at that particular moment – in particular the extraordinary willingness of the Republican caucus in the House of Representatives to take some advice that came out of right field and vote against the TARP in the first round – had a decisive effect on the outcome of the presidential election.

With the arrival of the Obama administration there was a second opportunity to get them out of right. But that opportunity also was not taken. The Obama administration was compelled by the same logic that the Bush administration had been following, that is to prevent panic and to save institutions at the expense of pursuing the effective restructuring that would enable them to contribute any time soon to the processes of economic recovery. The result was of course a political disaster in that the banks very quickly realized that they were saved; they were saved by a relaxation of the accounting standards that permits them to this day to continue to fail to realize their losses, losses which will not be repaired.

It permits them to operate profitably without making loans by borrowing from the central bank for practically nothing and then lending back to the government for 3 or 4 percent.

At the same time, the great institutions which I spoke of earlier – the great public-private institutions that create obligations for the Federal Government – along with the progressive income tax among other things, cooperated through a process economists know as economic stabilization, fiscal stabilization, to put the Federal Government into deficit far beyond any prior predictions of what was sustainable or stable and creating, in exact Godley fashion, a corresponding financial surplus in the private sector. Savings went ahead of investment so that the savings rate has gone up just as the government deficit has. This is an accounting necessity as the two are exactly the same phenomenon simply recorded on opposite sides of the balance sheet. That was the principal reason why we did not move to the great depression, Mark Two. We have a very large government sector which moved very rapidly to stabilized activity as result of processes which were baked in the cake and did not require new legislation. There was an addition to that, a very useful stimulus bill, the American Recovery and Reinvestment Act, which, while not as large as I would have liked it to have been, certainly is contributing now to preventing the complete meltdown of state and local governments and to providing construction jobs in the public sector.

That is roughly where we are at the present time. There are some successes and things could have been worse. But the successes are marked by extreme limitations and there are four of those: The first is in the housing sector. Remembering that housing is a source of financial wealth of what was once the American middle class – that middle class is largely lost. The equity that it built up over many decades in its homes is severely impaired. Every large part of it owes more on its mortgages than it could receive were its house on the market, if it could sell its housing at all. Those with very few other liquid assets are effectively financially insolvent. That is a problem which will only be resolved over a very long time horizon as people give up their homes and move into rentals, reversing, in effect, one of the greatest social projects of the twentieth century. It is a process which is underway but it will take a long time and be very painful.

A second broad area where we have not succeeded and are not succeeding is in the institutions that provide services at the state and local level higher education, public schools, libraries, parks, police, fire, all of which are under intense pressure, as a result of a failure to fully fund state and local services. The failure of the Federal Government to completely fill the enormous gaps that have opened up particularly in states where the housing crisis is most intense, like California and Florida, is having dramatic effects. As a result, the major institutions of the American welfare state are functionally dismantled. The University of California has been the greatest public university ever created. The ongoings there now are very sad. They are shameful. More and more problems are coming up and it is hard to imagine how they will be reversed.

A third area where we have not succeeded is in front of us today. It is international and I want to come back to that momentarily because I think not enough has been made of the link between the American crisis peaking in 2008 and the European crisis peaking now.

The fourth area is the financial sector. The question is how to regain trust and build confidence. The problem is that trust cannot simply be regained; it has to be earned, it has to be merited. Once reality sets in, once information is available, once people realize the extent of the problem, of the corruption and criminalization at the root of this problem, trust cannot be regained until the wheels of justice turn. I gave testimony to this effect to the Senate Judiciary Sub-Committee on Crime on the 4th of May. The issue has been raised in other Senate subcommittees. It's being raised by the Financial Crisis Inquiry Commission chaired by Phil Angelides. It is being raised by the Securities and Exchange Commission. It's being raised at the Justice Department. It is being raised by a Congresswoman named Marcy Kaptur, who has a bill in to provide an extra thousand agents to the FBI. That process once started must be completed or trust cannot be restored. If it is circumscribed, if it is cut short, then the consequences will be roughly the same as the consequence to the airlines if we give up air traffic control. No one will use the institutions because the information about their lack of safety will be out there but the corrected actions will not have been taken. That is the challenge we will have to face going forward.

Let me just say, in closing, a word about the connection between the US-American and the European financial crisis. I think it is been customary to treat the events in Europe as a Greek crisis: as an event

related to the particular profligacy of the Greek government over the years and as a profligacy that was only revealed by but certainly not caused by the present socialist government. I think it is a profoundly misleading narrative. It is one very similar to blaming the crisis of states on localities, on the misgovernment of the state of California and similar jurisdiction. It fundamentally misses the essential story. At what time did the spreads on Greek government bonds begin to diverge from those on German government bonds? The answer is September / October of 2008 and those spreads have been diverging ever since.

Why was that? I think the answer is obviously not related to Greece but absolutely related to New York and Washington, to the crisis in the United States, and to a generalized flight to safety; moving out of anything that might be considered problematic. Movement which ultimately leads to a political game between the bond markets and the most powerful political entities available, the European Union and the European central bank, over whether those entities will take or relieve the large financial institutions of the losses associated with a failure of the borrowers to refinance their debts. A game which is being resolved as we speak. Further, I think the only way it can be resolved which is with the capitulation of the authorities and the Europeanization of Mediterranean debts.

What this leaves you with is something very similar to what we have: a situation in which the banks have been effectively rescued but the economies have not. Thus, the price is paid by relentless rounds of fiscal austerity. We may get more of this at the federal level in the United States in the months to come, leading to an essential inability of economies on both continents to move back to a pattern of constructive growth with balance between the public and private sector. Because there is nothing on the private side that will take up the losses being incurred on the public side. So that raises a very deep question in my view: Going forward, is it possible to construct a world in which we have extraordinary power of private financial markets equipped with what Warren Buffet called financial weapons of mass destruction, Credit Default Swaps, greatly out-balancing the value of assets against which they are written and therefore the dominant features in the financial market? In which these instruments determine the price of every bond issued by every public authority except perhaps by the government of the United States itself? In that environment, how is it possible to re-

establish long-term corporate borrowing for entrepreneurial purposes or long-term government borrowing for capital improvements and improving the quality of life? If it is not possible, what alternative institutions do we propose?

Last summer – my final words – I was at a very interesting small conference in Umbria sponsored by the Russian Academy of Sciences, and presided over by President Gorbachev. It was small, 13-15 people, I was the only American. I gave my remarks at the opening session. I said, "Mr. President, when Homer returns to write the history of this epoch he will no doubt say that the Russian mathematicians streamed forth from Muscovy in 1991 and presented themselves before the gates of Wall Street bearing the gift of quantitative risk management. They were received with joy and in 20 years they had done their work and succeeded in destroying the whole place. It was the greatest Trojan Horse operation since Troy. So he will no doubt say, Mr. President, that you were responsible not only for the demise of Soviet Communism but also for the demise of financial capitalism." To which Gorbachev responded, "I've been accused of worse."

We do have to ask whether Marx, Lenin and Luxemburg may have the last laugh in this matter. If we do not wish them to have the last laugh – and I do not; I would much rather it be John Maynard Keynes, Wynne Godley, and Hyman Minsky who have the last laugh – then we really have to get to work and change not only our thinking, but our actions at this stage. Because I think that the moment the issue will be decided is not very far away.

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II.

Economics, Culture, and Theory

JULIE A. NELSON

Gender, Metaphor, and American Economies

Introduction

> The devil makes a visit to an American economist. "Let me make you an offer," the devil says. "I can get your research published in the American Economic Review. I can get you an endowed chair at Harvard University, make you President Obama's chief economic advisor, and win you the Nobel Prize. All I ask in return is that you, your spouse, your children, and your children's children burn in hell for all eternity." "Hmmm…." says the economist. "What's the catch?"

The notion that economic life is a soulless enterprise, characterized by unbridled individual self-interest, is pretty much taken as a truism in much of the United States. People are supposed to be "rugged individualists," as our President Herbert Hoover exhorted us in 1928, just before the (last) Great Depression. We are supposed to individually succeed by freely pursing our individual interests and competing with each other in unregulated markets. President Hoover explicitly compared his preferred type of economy with the "European system of […] paternalism and state socialism" which, he said, "spreads the spirit of submission into our daily life" (Hoover 1928).

The recent debates on health care reform in my country, for example, illustrate the extreme difficulty of getting any sort of social welfare policy implemented here. Social welfare-related proposals are quickly associated, in the conservative media, with socialism and a lack of respect for individual autonomy. Arguing that a policy will limit people's individual "choices" is, oftentimes, the kiss of death. Borrowing a term coined in Britain, a government that attempts to help or protect people is said to be a "nanny state."

Why this fascination with self-interest and self-sufficiency? I will argue that certain metaphorical ways of understanding the world have, through the course of Western and more specifically Anglo-American history, created a strong set of *gender-influenced cognitive biases*. In brief, commercial life and self-interest have come to be associated with masculinity and virility, and a deeply embedded metaphorical association of economies with "hard" machinery, rationality, autonomy, and precision. Iconic representations of the American "spirit of individualism," for example feature a lone, male, White cowboy from the frontier days of American history. The flip side of this is that family life and any sort of sociality, including people joining together to promote social well-being, have come to be associated with femininity and a relative lack of control, and with a tendency towards "soft" human relationships, feelings, and messiness. Frontier *women*, in contrast to frontier men, are usually depicted holding or leading a child. Some editorial cartoons opposing health care regulation featured, for example, domineering female nurses or a force-feeding from a baby's bottle.

Note that it is the traditional submission of wives and children to a family patriarch that gives Hoover's idea of a "paternalistic" socialist state its emotional hook: "Accept such a state and you will be emasculated," it implies. Similarly, the feminine gender of the "nanny" in "the nanny state" is not just coincidental: The image of submission to a fussy female is especially threatening to symbolic manhood. The unconscious appeal of a gender-associated way of thinking can lend a certain sort of viral power to Anglo-American free-market economic rhetoric, as its spread even to countries with quite different histories attests.

This framing of economic life, I will argue, perhaps more surprisingly, undergirds not only the thinking of free-market advocates, but also the thinking of many of capitalism's critics, as well. *Truly* critical theory, I will argue, requires getting beyond these old metaphors.

But first, it is helpful to understand the historical origin of gendered metaphors for economic life, and some of the psychological reasons for their persistence and strength.