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A multi-faceted financial crisis

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Nearly three years after the deluge, the financial crisis is in many different ways still with us: from its consequences on the real economy, to the clearly perceived risk of new catastrophes, from its role in engendering social malaise and political events such as the revolts in Arab countries, to its impact on the theoretical and policy debate in economics.

First, while financial markets appear to have recovered from the crisis, a heavy burden on the world economy has remained: unemployment rates are still very high, with a significant impact on youth unemployment and relevant differences in the strength of the recovery between different areas of the world, as well as within countries. For example in Italy, where northern regions have begun to experience an economic rebound, southern regions continue to lag behind. In other terms, the differential impacts of the crisis are very strong and will have lasting consequences, which deserve attention.

Second, the evolution of the crisis is still a subject of debate. While most mainstream economists foresaw a "V" path with a quick and strong recovery after the fall, and some pessimists foresaw a "L" path, similar to what Japan experienced in the last couple of decades – with the fall followed by a long period of stagnation, most Keynesian economists maintained and still maintain that important elements of economic and financial fragility are still present, so that a "W" path is the most likely course, with (partial) recovery marred by new outbursts of difficulties. The Greek public debt crisis has been (and may still prove itself to be) an instance of such difficulties; as another instance we may refer to the likely but still to be felt impact (certainly not only and probably not mainly on oil prices) of the recent political revolts in Arab countries.

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A third aspect of the crisis, to which most commentators have been relatively blind up to recently, concerns its political consequences: the social malaise connected to the economic crisis may engender, or contribute to engendering, far-reaching political “surprises”, which in turn react on the economic and financial situation. The widespread attempt to ignore this element as a contributing cause of the dramatic events in Arab countries is only understandable as a psychological reaction to a risk present everywhere. In fact, this aspect may gain weight in Western countries as well, even if in less dramatic forms than in countries run by authoritarian regimes, if the fiscal retrenchment called for by mainstream economists is carried out with scant attention to its distributive impact, shifting the cost of the support lent over the past couple of years to the financial sector of the economy onto the lowest strata of the population.

Last but not least, the crisis has brought a cultural upheaval, with well-established ways of thinking shaken by the events and with heterodox views brought to the fore. There are many different yet deeply connected elements involved in this. Indeed, theory is more or less directly the root of policy choices; different theoretical views imply, even if with a large element of flexibility, different policy views. Thus, the response to the crisis implies at a basic level a reappraisal of the foundations of macroeconomics.

This is the aspect on which the current issue of Moneta e Credito, our sister journal, focuses attention: publishing the papers presented at a symposium on “The crisis of macroeconomics” held at the Accademia Nazionale dei Lincei on November 30, 2010 (Roncaglia, 2011). The paper by Kregel (2011) in this issue is one of the papers presented on that occasion. It deals with the theoretical background of the policy responses to the financial crisis. The modest size of the US stimulus package is stressed, and utilized for pointing out the long-term decline of Keynesian policies that, notwithstanding some lip service, have not really been revitalized after the crisis. There are political – in the strict sense of the term – reasons for this, and the interaction between economic policy choices and the political debate should be accounted for, together with the parallel interaction between such choices and their cultural-theoretical background. A comparison with Roosevelt's New Deal is useful in this respect, as well as a reappraisal of the distinction between debt deflation and income deflation processes. This involves a reappraisal of Hyman Minsky's contributions and attention for the issue of income inequalities, imbalances and disproportions. As a conclusion, we are led to a redefinition of Keynesian stimulus policies that are at the same time more adequate to the situation and more in consonance with Keynes's original thinking.

In light of the mentioned centrality of the theoretical debate, the article opening this issue, Bhaduri (2011), presents a macroeconomic model that embodies attention to the effects of the financialization process (such as the role of capital gains or losses in inducing wealth effects on consumption) from a Keynesian-Kaleckian point of view, with Kaldorian and Minskyan elements in the analysis of the financial side of the economy. It thus provides useful ground for considering the elements of similarity and difference between the present crisis and previous ones.

The third article in this issue, by Ceriani *et al.* (2011), offers an in-depth analysis of the effects of the tax system on the economic factors that triggered the financial crisis. Attention is lent in particular to the taxation of residential building, the tax treatment of the performance-based remuneration of managers, tax arbitrage and the de facto exemption of CDS premiums received by non-residents.

Thus, once again our journal focuses its attention on the crisis – the theoretical and applied debate on the factors leading to it and its policy implications – in an attempt to contribute to our understanding of the main economic event of the past decade, still in many ways unfolding.

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