



Commented bibliography

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GEORGE SOROS

The New Paradigm for Financial Markets: The Credit Crisis of 2008 and What It Means.
New York: PublicAffairs, 2008.

A recension by Jacint Ros i Ombrella

A vast number of books on the financial and economic crisis we are experiencing have appeared in recent times. This one is a special text, above all because of the mix of theoretical and practical considerations by a financier who made a big fortune in financial markets after attending Karl Popper's seminar at the London School of Economics (LSE). The book combines both views and experiences without disregarding its philosophical side.

The publication of the Catalan version (*El nou paradigma dels mercats financers: per entendre la crisi econòmica actual*. Barcelona: Edicions 62, 2008) came at a good point as it appeared shortly after the original, with a fine translation by Lluís Delgado.

The key point of Soros' explanation of the crisis triggered in August 2007 is the drastic review of

the assumption of markets with perfect competition tending towards balance, as he had been taught at the LSE. He does not believe in the first part (competition) and less in the second (balance). Many markets are imperfect, an example of imperfect oligopolistic competition with their stakeholders having neither complete information nor rationality.

Far from a relentless trend towards balance, markets tend to concatenate successive, prolonged imbalances. So far from being strictly cognitive, they are participatory markets upon which stakeholders act, as George Soros puts it, under the basic principle of interference reflexivity. Mr Soros must know it well as, speculating intensively against the pound sterling, he drove it to devaluation! The creation of the real estate and financial bubble in the United States, which burst in August 2007, illustrates his thesis perfectly (p. 12-19).

After coming back to describe his action as a financier, an additional value of the book, this successful personal experience for which – he admits – theory did not serve, he comes back to philosophising by placing the principle of falsifiability next to the above-mentioned one of

reflexivity, which comes from his master Karl Popper and is after all inherent to any social science aspiring to be positive.

About his stay at the LSE he refers the following: «I studied economic theory, I was not very good at mathematics and this led me to challenge the assumptions mathematical models used by economists were based upon.» In this respect, he is also quite sceptical about the predictive capacity of theory, simply «because it does not provide determinist explanations» (Soros' argument lacks reference to the probabilistic approach and the game theory). And he concludes: «Finding out in how far my philosophy contributed to my financial success is a complex matter, as the most notable feature of my theory is that it does not provide solid predictions.»

George Soros even gives some political recommendations, which are – very summarised – the following:

- ▶ There is nothing to do as long as the US has not a democrat president.
- ▶ It is obvious that an uncontrolled, insane financial industry is wreaking havoc in the economy: it needs to come back to track again.
- ▶ Excess regulation could seriously hamper economic activity.
- ▶ We must not forget that regulators are not only humans but also bureaucrats.

He goes on adding: «To a great extent, excess in the financial markets is the outcome of the inability of regulators to have appropriate control over them.» He further asserts that «there are systematic risks regulatory authorities need to control». Such control is more necessary in bullish periods, even if it restricts financial profit, thus triggering opposition by the branch; Soros makes a difference between credit-creating and money-creating bodies.

Related to the real estate bubble, George Soros says: «Both the real estate bubble and the

superbubble have been characterised by excessive use of leveraging»; «control of leveraging will reduce the volume and profitability of the financial industry, but this is what the public interest requires». He then gives some suggestions to take on the consequences of the real estate bubble burst and the uncovering of subprime mortgages, full of realism and with a clear social feeling (p. 188-193), also in the sense that those affected «could be considered victims of the real estate bubble who deserve certain relief».

He also recommends «aid to local communities, which shall be a fertile land even for private philanthropy», giving as an example the Center for New York City. All in all, this book by George Soros is wise, full of experiences, stimulating and easy and pleasant to read.

PAUL KRUGMAN

The Conscience of a Liberal. New York: Norton, 2007.

The Return of Depression Economics and the Crisis of 2008. New York: Norton, 2008.

A recension by Antoni Garcia

PPaul Krugman (Albany, NY, 1953) is a first-class phenomenon in academic economics. The extraordinary political influence of his columns in *The New York Times*, where has been giving his opinion on the world economy and economic policies to be adopted since 2000, has made him probably the most listened economist of the world. Apart from his considerable intellectual merits, this is partly due to the convergence of three factors that should basically be considered independent: the beginning of recession at international level, Barack Obama's election as US president and the 2008 Nobel Prize in economics. So what environmental factors could be more convenient to a Keynesian and politically liberal economist (by American standards, i.e. close to European social democracy)? There is no doubt that 2009 will be an important year for Krugman: with the award by

the Swedish Academy, an economic situation needing urgent, deep reform and a new president of the United States on which he has an outstanding influence, materialisation of his economic theories is virtually within grasp.

Of course, he reached his vantage position not only making friends and admirers. His membership at the Council of Economic Advisors of the Reagan administration (1982-83) and his fugacious task as an advisor to later defaulted Enron (1999) are often mentioned by his detractors. **Carles Boix**, the Catalan full professor of Political Science and Public Affairs at Princeton University who shares the same office floor with Krugman is not very fond of his ideas.

Krugman's work has had a notable dissemination and wide recognition in Spain, where he was given the 2004 Prince of Asturias prize in social sciences. However, as was to be expected, the Nobel prize accelerated translation of his more recent works. This is the case of the two titles we comment here, written for a general audience. As an author, he had previously created works as remarkable as *Peddling Prosperity* (New York: Norton, 1995), which is however far from the stringency and clarity of *International Economics: Theory and Policy* (Boston: Pearson Addison-Wesley, 2006, 7th ed.), his most influential university textbook, or the intellectual brilliance of *Geography and Trade* (Leuven/Cambridge, Mass.: Leuven University Press/MIT Press, 1991), Krugman's monograph I personally find most stimulating.

The Conscience of a Liberal – Krugman's first book to be translated into Catalan, if I am not mistaken, with the title *La fi dels neocons* ('The end of neocons') – is an eminently political work in which the author settles old scores with the neo-conservative movement that has been dominating the republican political scene since Ronald Reagan.

The book is divided in three parts: in the first five chapters, the main economic and social policies of US presidents in the 20th century are

described, from the foundations of the welfare state established by Roosevelt, their continuation over the 1940s and 1950s – a period called «the great compression» due to the intensive process of income convergence in the United States – and considerable growth of the average living standard and social policies taking place during the *industrial golden age* in the 1960s and 1970s. The author sees the cause of this development in a basic consensus between democrats and republicans after World War II on the main objectives of government action.

The second part, going to the ninth chapter, explains the breakdown of this consensus with the emergence of «new conservatism», a marginal movement issued from the right wing of the republican scene around the *National Review* in the late 1950s. This movement consolidated by and by with intellectual and economic structures. New conservatism found in Reagan, already in his times as a candidate to become governor of California, the necessary political leadership to win a majority within the Republican Party and become the best organised and most powerful political current in the US – Krugman calls it a true «conspiracy from the right» – down to the last days of the Bush administration.

The final part of the book, starting in the tenth chapter, defines an agenda of economic and social policy for the new Obama administration whose cornerstone for reform is the creation of a universal public health system comparable to European standards, the big pending task in creating a welfare state in the United States initiated by Roosevelt.

In its turn, *The Return of Depression Economics* and the Crisis of 2008 is a book addressed at a general audience, though Krugman cannot help including some itching remarks on Greenspan's action at the head of the Federal Reserve and the Bush administration. Although the book is in fact recycled from a 1999 publication titled *The Return of Depression Economics*, which was an overview over the last financial crises of the 20th century (especially those in Latin

America and Asia), it is still interesting to remind some recent episodes of economic history. Understanding what led a Nobel Prize winner in economics like Robert Lucas to state in 1995 that the issue with economic cycles was over has today a notorious pedagogical value, as has the reason of the events that proved him wrong as several local financial crises broke out.

Particularly Krugman's analysis of the Japanese crisis is noteworthy, as it shares a lot of features with ours and its length can give some clues of the future challenges present-day anti-crisis policies may encounter. The financial crisis in Scandinavian countries in the early 1990s is not

dealt with in detail in Krugman's book, but it would have been interesting to mention it as it was corrected by means of a mechanism that is tried to be reused: bad banks.

The three final chapters are devoted to analysing the causes of and possible remedies for the present crisis. In this respect, Krugman, a professing Keynesian, is monolithically consistent: «It is paramount to solve the weaknesses that allowed this crisis, but this can wait. First of all, we need to take on the evident perils threatening us. To do so, the world politicians need to achieve two things: credit flowing again and fostering spending.»

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A former full professor of Economic Policy at the University of Barcelona and the Autonomous University of Barcelona, and professor at the universities of Valencia and Complutense in Madrid. Also a former auditor at the Court of Audit of Catalonia.

He has obtained the St George's Cross and the Monturiol Medal for Research, and is an honorary member of the College of Economists of Catalonia.

His latest book is *Més val sols... La viabilitat econòmica de la independència de Catalunya* (Dèria Editors, 2009).



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