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ЭКОНОМИЧЕСКАЯ ТЕОРИЯ

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J. K. Hass

TECHNIQUES, TECHNOLOGIES AND POLITICS OF CRISIS AND POST-CRISIS ECONOMICS: ANGLO-AMERICAN MACROECONOMICS AND ALTERNATIVES

This paper attempts a critical appraisal of one core debate and theories in economics about the 2008 crisis and post-2008 economic growth and stagnation. In addition to examining formal publications, this essay also examines serious blogs by high-profile economists who are core participants in public discourse over economic policy. Drawing on the general logic of economic sociology and political economy — in particular, an appreciation for more complex microfoundations of economic practice (e.g. power and culture) and institutions—this paper addresses three issues about theoretical frameworks and claims about post-crisis growth or lack thereof: 1) *Techniques*: economists' discourses focus primarily on techniques (policies and the like) available to the state and other actors for shaping economic performance, but at the cost of lack of critical distance. 2) *Technologies*: economists' discourses generally pay little attention to available institutional tools and techniques for affecting economic performance, which reveals limits to economic theory and theorists, as well as continuing pro-market hegemony in the discipline. 3) *Politics*: economists do comment on the politics of policy discussions and policies themselves, but politics ultimately remains exogenous to discussions, theory, and models — continuing a fatal weakness of economic theory that has been noted for decades. The paper then examines alternative frameworks grounded in political economy and economic sociology that focus on (and make endogenous) institutions, states and elites, logics of capitalism, and power, and concludes with possible propositions from these frameworks regarding crisis and post-crisis economics. Refs 76.

Keywords: 2008 crisis, macroeconomics, Keynesianism, Krugman, political economy, economic sociology, field theory.

Дж. К. Хасс

МЕТОДЫ, ИНСТРУМЕНТЫ И ПОЛИТИКА В КРИЗИСНОЙ И ПОСТКРИЗИСНОЙ ЭКОНОМИКЕ: АНГЛО-АМЕРИКАНСКАЯ МОДЕЛЬ МАКРОЭКОНОМИКИ И ЕЕ АЛЬТЕРНАТИВЫ

В статье предпринята попытка критического осмысления дебатов и теорий применительно к кризисной экономике 2008 г. и последующих росте и стагнации. Помимо официальных публикаций, в данной статье анализируются также блоги известных экономистов — ключевых участников публичного обсуждения экономической политики. В рамках общей логики эконо-

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мической социологии и политической экономии, в том числе рассматривая глубинные основы экономической практики (прежде всего, власть и культуру), автор исследует три вопроса о теоретических основах и свойствах посткризисного роста или отсутствия такового: 1) инструменты: дискуссии экономистов сосредоточены прежде всего на имеющихся в распоряжении государства и других субъектов инструментах (политики и т. п.) для воздействия на экономику в ущерб критическому подходу; 2) методы: в спорах вокруг экономики обычно недостаточно внимания уделяется институциональным инструментам и методам воздействия на экономику, что ограничивает применение экономических теорий и мнений ученых, а также способствует доминированию про-рыночного направления в экономической науке; 3) политика: экономисты комментируют политику при обсуждении инструментов экономического регулирования, а также сами инструменты; при этом политика всегда остается некой данностью (*endogenous*) в дискуссиях, в теории и в моделях, порождая фатальную слабость экономической теории, что видно на протяжении десятилетий.

В этой связи в статье анализируется альтернативная парадигма, основанная на политической экономии и экономической социологии, предметом которых являются (и таким образом становятся эндогенными) институты, государства и элиты, логика капитализма и власти. В заключительной части статьи в рамках данной парадигмы даны предложения, касающиеся кризисной и посткризисной экономики. Библиогр. 76 назв.

Ключевые слова: кризис 2008, макроэкономика, кейнсианство, Кругман, политическая экономия, экономическая социология, теория поля.

1. Contentious Claims about Post-Crisis Economics

The crisis of 2008 and its lingering effects on employment, investment, trade, and the like are among the worst global economic downturns since the Great Depression, yet scholarly analyses are far from reaching consensus over this economic event. Its roots, its nature, and thus its solutions are contested within and between disciplines — often due to politics as well conflicting models and underlying assumptions about relevant variables, the nature of human practice, and cause-effect relations. Within the Anglo-American economics profession, one dividing line in analyses and policy prescriptions vis-à-vis the 2008 crisis and growth has been between "austerians" who worry about government debt and inflation, and more traditional demand-side Keynesians (even if they adopt the identity of "new Keynesians"), who point to a liquidity crisis as the core to current sluggish recovery. Yet missing in this debate is a serious consideration of structures and institutions — the very social forces that drove analyses in classical and contemporary political economy[1]. There are loosely related alternative approaches from economic sociology and political economy (political science), drawing no small inspiration from the work of Karl Marx and Max Weber. While political scientists and sociologists have not ignored the roots and dynamics of the 2008 crisis and policies and dynamics of the post-2008 "recovery" (to the extent there has been any stable, significant recovery), scholars in these disciplines have been far less vocal or innovative in using their theoretical tools to examine the crisis and that which came after.

In this paper I use a combination of formal academic papers and less rigorous but still important and provocative blog posts form important economists, to examine the discourse and theoretical logics in the economics profession. I will constrain this discussion to the *Anglo-American sphere* of the profession for two reasons. First, restrictions on space limit the scope of discussion. Extending the discussion beyond Anglo-American discourse would mean not only bringing in even more voices and citations; it would also mean ad-

[1] One exception is demography, i. e. the distribution of people across age groups, which has been invoked in "secular stagnation" hypotheses [Teulings and Baldwin, 2014]: i. e. weak demographic growth means slowing demand and eventual stagnation, with growth relying on investment bubbles.

dressing alternative traditions that have sufficient differences from Anglo-American discourse [Fourcade, 2009], while also sharing sufficient assumptions and logics; disentangling similarities and differences, while also being aware of institutional and historical variation, would require a small book at the least. Second, the Anglo-American tradition, arguably, forms the core of the global economic discourse. American and British universities have enjoyed good material resources (even recently) to develop quantity and quality of academic talent, as well as to facilitate research and publications that shape discourses. As well, important economic organizations — the IMF and World Bank, various UN bodies, and private organizations (think tanks, analytic divisions of major banks, etc.) — tend to recruit students of American and British universities. (Note this is *not* a claim to superior validity of Anglo-American economics[2].)

In this paper, I will begin with a brief discussion of basic claims and debates within the Anglo-American wing of the economics profession. From this, I will suggest that the main thrust of economics discourse is an analysis of *policies and techniques* — i.e. what states should do with an economy (e.g. lower taxes or more redistributive policies; more or less use of fiscal tools; and so on). However, such accounts take for granted *technologies* and *politics* of crisis and post-crisis policies (or policies in general). If techniques involve *how* to use a tool, technologies involve the tools themselves — including possible alternative tools to those presumed in economics. Politics, of course, involves the structuring of power to use tools or to prevent their use, or to create new tools. Unfortunately, in economics discourse technologies and power are given short shrift, to the extent they are operative concepts at all. In contrast, political science and economic sociology make technologies and politics central: for example, class.

Theoretical content for this paper — which is empirical material for an analysis of ideas — comes from a set of publications, some landmark and others chosen through keyword searches from JSTOR (so akin to a content analysis), and from general content of blogs by economists important in the academic world and as emerging public intellectuals. For sake of space I will not cite every blog post consulted, unless necessary; of this essay, I summarize the aggregate content of blog posts by these authors[3]. Originally I intended to analyze economics discourse more closely, but constant reading of that discourse convinced me that Krugman, Wren-Lewis, Mankiw, and many others were skirting around issues central to alternative analyses of economic forces, practices, dynamics, and growth: namely, insights from political economy (classical and contemporary) and field theory[4].

[2] Some economics discourse outside the Anglo-American world (e.g. in Russia) gives more weight to "history" and "culture," although how and why "history" and "culture" matter as causal or mediating forces is not always so clear. Because these other discourses allow more conceptual room for structure, culture, and the like, one could argue for merging such scholarship with political science and economic sociology, akin to an advanced version of nineteenth century political economy. I also leave out behavioral economics from this discussion. First, this scholarship has been distant from broader discourse of crisis and recovery. Second, behavioral economics puts the cart before the horse — examining behavioral foundations of economic practice without sufficient grounding in cognitive psychology, which should provide basic foundations for any social science.

[3] This means replication and verification are possible. One can read the blogs of Paul Krugman, Simon Wren-Lewis, Brad DeLong, Gregory Mankiw, and others to check veracity of my claims.

[4] Note that these models presume a stable geopolitical environment. When international conflict emerges, politics tends to trump economics, and all bets are off.

2. Economists' Visions of Techniques of Growth, or, IS-LM and All That

Within the economics literature and blogosphere, one important current debate over post-crisis growth and stagnation concerns whether stimulus packages or austerity measures should be implemented. For austerians, the real problem is public and private debt. The wisest approach is to reign in government spending and restrict the money supply, reducing the threat of inflation and reducing government competition for existing capital. This should, in theory, help businesses borrow to produce, trade, and sell, and get the economy back on its feet. Indeed, thinking along these lines was behind Reinhart and Rogoff's [2010] infamous warning about high government debt relative to GDP: stimulus packages, financed by state debt, would only worsen an already bad situation[5]. Better to give market actors the freedom to decide as they see fit, and the best way to help said actors is to keep government debt low and avoid inflation. (Such a policy might sound familiar — it was the basis of "shock therapy," which was not particularly successful on its own for reasons beyond the scope of this paper.) Reinhart and Rogoff's errors (coding errors, data omissions, etc.) are well-known enough not to warrant further comment; these called into question one leg of the austerity thesis, that using public debt to finance stimulus packages is inherently dangerous. In a parallel logic of sparing markets from social forces and effects, Mankiw [e.g. 2013], see also: [Cochrane, 2009; Mankiw, Swagel, 2006] has resisted claims about systemic inequality and the possibility of causal relations moving in both directions between inequality and the 2008 crisis and nature of post-crisis policies and recovery. Rogoff, Cochrane, and Mankiw, among others, continue to support a "market sanctity" thesis: markets will clear and reequilibrate, and markets are best left to their own devices to maintain efficiency, growth, and even meritocracy.

Opposing this view are proponents of Keynesian theory and Hicks' famous IS-LM curve as adapted from Keynes, as well as the issue of liquidity traps at the heart of the current economic malaise. Market mechanisms and relations have a negative side that supply-side and similar models cannot easily account for or even articulate — for example, the possibility that a market economy and core financial institutions of its support can generate incentives that lead *away* from stable growth or recovery[6]. The current champion of the IS-LM/liquidity trap thesis, Paul Krugman, has shown in his *New York Times* blog that comparative data reveal that the liquidity trap thesis holds up; that in fact austerity hinders rather than aids economic recovery; and that the threat of inflation was overstated by its detractors (Cochrane in particular). (Krugman has not been alone in his endeavor — Simon Wren-Lewis [2014a] has been active in his blog and scholarly publications pushing the same general line of analysis and policy prescription — but with a Nobel Prize and the *New York Times* behind his name, Krugman is the more visible leader of this Keynesian analysis.) Those who identify with "freshwater" economics, in contrast to "saltwater" economics[7], and are closer to Keynes in their analysis, tend to take liquidity traps and IS-LM

[5] Note that Rogoff himself, citing Blanchard, Dell'Ariccia and Mauro [2010], admits that the zero lower bound is important and that raising inflation targets would be a good idea in theory, although if it would not work in practice [Rogoff, 2014].

[6] I leave aside the Austrian school, whose supporters often claim not to like financial institutions such as central banks. While the Austrian school has provided useful insights, the sacralization of market relations blatantly injects ideology into what should be cold-hearted analysis.

[7] The general difference between "freshwater" economists (at inland universities, such as the University of Minnesota) and "saltwater" economists (in universities on the coast, such as Princeton) is that freshwater

curves more seriously. In this interpretation of the 2008 crisis and economies, the current problem is one of insufficient demand and the "zero bound" of the liquidity trap. Krugman [1998a] is perhaps the most famous economist in this camp, and through his blog for the *New York Times* Krugman has used IS-LM to propose that Western economies are at the zero bound, and so there is little that traditional monetary policy can do. Instead, according to Krugman, reasonable policy would include a greater stimulus and a shift in central bank behavior so as to alter expectations among consumers and those in the business community (see also: [Reis, 2009]). Regarding stimulus, deficit financing at present is not as perilous as unemployment and low demand; with interest rates close to zero, this is the time to borrow to encourage employment and consumption. Regarding expectations, Krugman [1998a] has argued that businesses are discouraged to spend because they fear an imminent rise in interest rates to combat expected inflation — a reasonable expectation, given that western central banks have been overly fearful of inflation since the 1970s. Instead, argues Krugman, central banks should allow a higher degree of inflation and in fact act in opposition to the usual rules of conservative, measured, careful policies and policy statements. In this way, fiscal policies (e. g. public works) over a longer period of time would have the desired effect of raising demand and bringing an economy out of recession and stagnation more quickly. Krugman has also gone as far as to suggest that saving can contribute to a stagnant recovery [Eggertsson and Krugman, 2012], and in his blog he sometimes suggested that savers be punished: if the problem is low demand, then hoarding cash does little to help anyone. Rather, there should be a disincentive to save too much — perhaps taxes on savings over a certain amount, with taxes collected pumped back into the economy via public works or other state-led consumption.

In his blogs and scholarly work (e. g. [Krugman, 1998a, 1999; Eggertsson and Krugman, 2012]), Krugman makes two basic and simple propositions. The first is that at the zero lower bound, monetary expansion and fiscal policies that prime the economic pump will not lead in the short-term to rising inflation. In fact, unless such government spending is directed towards consumption — public works, for example — then fiscal expansion will not do much. Earlier, Krugman [1998a] even suggested that public works spending might have little effect anyway — but this was based on *one* study of the American Great Depression that is far from accepted as Truth. Further, Krugman [2009] has since suggested that a large stimulus package was essential to maintain demand and employment, so as to avoid the zero lower bound and deflation, with its problem of central banks facing the dilemma of "pushing on a string" (i. e. incapacity of policies to encourage behavior). A corollary to this proposition (or perhaps its mirror image) is that austerity will act as a drag on a return of economic health. In his blogs, Krugman admits that, barring further economic catastrophes, a sick economy will eventually improve, but this could take quite a bit of time and lead to continuing economic pain. A second, and related, proposition, is that to facilitate

economists demand macroeconomic models be strictly grounded in assumptions of microeconomic behavior, such as instrumentally rational action. Saltwater economists claim macroeconomic models can be built without such strict assumptions. First, macroeconomic models can be deduced from a few basic principles, such as price and wage stickiness, and then revised from empirical tests. Second, following Samuelson, Krugman suggests the macroeconomic context (institutionally vague) can shape actors' interests, expectations, and behavior. Of key consequence for us is that saltwater economists have an easier time using IS-LM curves because they do not require immediate microeconomic foundations, and the validity of macroeconomic claims can be judged based on how well models predict. (However, without theoretical mechanisms or microfoundations, explanation is problematic and grounded usually in vague assumptions such as "rational expectations.")

emergence from recession and the zero lower bound, central bankers must start to defy expectations of obsession with low inflation and price stability — rather, central bankers should show that they will not raise interest rates as soon as the specter of inflation can be imagined (let alone appears in the flesh), and instead will allow prices to rise. If interest rates remain low, businesses and banks will increase borrowing or lending, and purchases and production, for there will be less fear of being caught with higher interest to pay on debts and thus exposure to greater financial risk. (In Krugman's words, central bankers have to appear to act irresponsibly.)

Drawing on general data relating government purchases and austerity policies to change in GDP, using data from the IMF and other sources — in particular, comparisons between policies and economic outcomes in the United States and the European Union — Krugman [2012; 2013; 2014a] suggests that the greater the austerity, the slower the recovery. Granted, this focuses on only one variable — degree of monetary expansion — and the crisis of the euro, incomplete economic integration, and various political factors must be considered. The direction of causation is not entirely clear from the basic data, and many important political variables remain exogenous — a point to which I return below. Simon Wren-Lewis [2013b; 2014c] claimed much the same, with different kinds of data about American and European economies showing the same basic negative relation between austerity and recovery or growth. Reviewing Japan's "lost decade" and the years before and after the American crisis, Chow and Foster [2010] come to similar conclusions: namely, that both Minsky's and Krugman's claims have some support from empirical data. A related debate has concerned such policies as extended unemployment benefits, pitting European-style welfare or extraordinary extension of short-term American benefits. In the pro-market perspective (e. g. [Barro, 2011; 2012]), extended unemployment benefits warp the labor market and slow recovery, as the unemployed have less an incentive to seek work at whatever wage is possible. From a more Keynesian perspective, a crisis in demand — which is what the post-2008 crisis has been — extended or generous unemployment benefits will have little negative effect on the labor market or labor productivity — and if anything, unemployment benefits should stimulate demand and aid recovery. It seems that the evidence, once again, has been on the side of the Keynesianists [Krugman, 2014d]; also: [Casselman, 2014; Rothstein, 2011], in the United States and Europe — where economic stagnation has less to do with welfare expenditure and more with a crisis in demand exacerbated by the European Central Bank's austerity policies.

In sum, it seems that Krugman's Keynesian analyses fits data about recovery and inflation better. However, *why* this is the case is still not entirely clear. Do Krugman *et al* have an accurate handle on governing dynamics of capitalist economies, or economies generally? Are Krugman and those in his camp explaining rational behavior of a large group of market actors — investors, financial elites, bank consultants and employees, small business owners, average consumers, etc.? Or does IS-LM hold (in this case, at least) because actors with relevant knowledge and position (resources and decision-making authority) play by a shared set of rules and work within a linked set of institutions, such that sufficiently shared frames of reference allow for expectations and policies to play out as Krugman *et al* suggest?[8] IS-LM and other curves presume actors — but who are these actors, and what are their

[8] James Galbraith's [2002; 2011] discussion of the 2008 crisis raises such questions. For Galbraith, the 2008 crisis resulted from financial elites' unconscionably risky and even immoral (or criminal) acts and policy responses are a function of elite power and interests.

interests, ideologies, and resources[9]? IS-LM is an admitted problematic interpretation of Keynes' model, and everyday institutions, practices, politics, and ambiguity are missing. Even Krugman must assume too much rationality — and when that rationality does not show up (e.g. mainstream economists and politicians refusing to face the evidence that their policies are not working, or central banks only taking timid steps towards altering expectations about inflation and monetary policy), we have a problem in the model. Perhaps the problem is a sin of omission. But what is being omitted — and might this lead in different directions regarding the nature of economic shocks, crises, and recovery?

3. Techniques versus Technologies of Economic Policy

What is interesting about the debate within economics is the focus on *techniques* — for example, stimulus packages to improve demand, versus austerity measures to reduce risks of inflation and to reduce risks that government debt "crowds out" private investment. Yet what is missing from economics discourse now has been kept on the margins for decades: namely, institutions, culture, and power. One can see this in an interesting "tribal war" between freshwater versus saltwater camps in macroeconomics (i.e. grounding models in strict microeconomic assumptions, versus allowing more ambiguity in microeconomic behavior), interpreting liquidity traps as fleeting or transitional versus more structurally grounded and longer-lasting [cf. Palacio-Vera, 2010], or the feasibility of fiscal versus monetary policies. While the "Lucas critique" and Minsky's [1986] work suggest that institutions might affect behavior through means other than instrumental calculation of material incentives — a broader position long accepted economic sociology and political science — the rational actor and rational expectations, and insufficient conceptualization of institutions and power, plague mainstream economic discourse and models. Some economists suggest the crisis of 2008 — and the inability of many in the economics profession (outside an innovative minority) to notice impending disaster — was due to ignorance or dismissal of broader systemic factors. One study suggested that economists "should stop neglecting money, wealth and debt, and turn away from an individualistic view and toward a systemic view of the economy" [Bezemer, 2011: 1][10]. Krugman, again, has been critical of the lack of reflection in mainstream economic theory after 2008 (including policy recommendations that theory might suggest) — for example, the problem of models in professional (American) journals having to fit preconceptions of "normal" economic behavior rather than seriously engaging empirical data, and perhaps by extension expanding the analysis of social forces underlying economic practice. As he noted in one blog entry critical of the "new classical" model of economic theory grounded in microeconomic assumptions (e. g. rational expectations).

> You might have expected both the 2008 crisis and the years of poor performance that followed — years in which new classical types made massively wrong predictions, while people who remembered IS-LM did much better — would have changed this a lot. But remember

[9] Even Krugman [2009] seems to admit this is a valid point when he claims the "shadow banking system" contributed to the 2008 crisis and problematic recovery (and future crises). Concrete actors and institutions matter — but they have no room in a model that is far too abstract and broad.

[10] Note that a focus on "money and wealth" does not mean restriction to, say, asset bubbles (e.g. [Van Lear, 2010]. Rather, this suggests a focus on concrete institutions that shape the flow and use of finance, and the structured distribution of wealth [Dhami, al-Nowaihi, 2011].

that new classical macro fundamentally elevated microfoundations above empirical success; so orthodoxy largely brushed aside empirical failure [Krugman, 2014e].

Many economists were loath to question preconceptions despite data revealing otherwise:

> In the 80s, as I said, this [new classical synthesis] was proved wrong, and the whole enterprise should have been reconsidered. But by then you already had a self-perpetuating clique that cared very little about evidence and regarded the assumption of perfect rationality as sacrosanct — if you weren't assuming that, you weren't doing real economics. So the effects of events were asymmetric: the 70s led Keynesians to adapt, but new classicals shrugged off the 80s, just as they are shrugging off the Great Recession [Krugman, 2014e].

Wren-Lewis [2014d] suggested that Keynesian models did not need rational expectations assumptions that supporters of microeconomics demanded[11]. Thoma [2014] claimed that business cycle theory has problems with information costs: there is no market clearing for information asymmetries. In short, something is wrong with foundations in mainstream economics. Yet in noting this and championing a neo-Keynesian approach, Krugman *et al* fall into similar traps.

Another way of framing one critique is to accept Krugman's claim and evidence that fear of inflation blinds us to the real dynamics of crisis and recovery, and that austerity is the wrong policy to employ. Krugman then asks throughout his blogs: if the evidence suggests austerity does not work very well, and inflation has been middling at best, then why do many other economists twist and turn evidence and arguments to deny this — and why are politicians even worse? Why deny the "truth"? On several occasions Krugman has posited that the real issue is class power. Yet this raises a few dilemmas for Krugman's own framework. First, this leaves politics and institutions exogenous. We know the techniques to get us out of crisis and stagnation — yet we cannot employ them. This implies that economies are embedded in other social dynamics, such as politics. Second, ideologies on their own, outside of class interests, might be at work as well. Cochrane *et al* might not be supporting class allies on Wall Street; they might actually believe their dogma to be Truth (and this would not be the first such case in history). For example, defenses of neo-Friedmanite monetarist approaches to liquidity traps and the crisis of Japan and the United States are mathematically impressive (e. g. [Buiter, 2005; Williamson, 2012], but the general obsession with monetary policy analysis trips up on the fact that this approach has not fared well in explaining crises in Japan and the United States and problems of recovery.

Put differently, the actor with rational expectations in an *economics* context (standard theory) *seems to disappear elsewhere*. We must be non-rational outside economic contexts, rational inside. Yet this is a muddled view of human practice as we know it; humans do not compartmentalize to that extent. Thus, the economic models and claims of many economists and politicians are embedded in something bigger: *fields, institutions, and classes.*

[11] Piore and Sabel [1984] use a Keynesian analysis appreciative of *institutions and structure* to do that which many economists claimed Keynesianism could not do: to explain 1970s stagflation.

4. Technologies, Politics, and Those Missing Concrete Institutions and Actors

What stands out for this Simmelian "stranger" to the economics profession[12] is the absence of serious consideration of institutions and social structures. In one blog entry, Lars Syll [2014] criticizes IS-LM analyses as too basic and having no sense of institutional nuances or the concrete, "real" movement of commodities or capital — the kind of stuff institutionalists in other disciplines tend to take seriously. Krugman's [2014b] response is that such macroeconomic models at least provide some insights on what to expect in particular macroeconomic settings, e. g. likelihood — but not precise probability — of inflation after a stimulus package when an economy is near the zero lower bound. I find this unconvincing theoretically and intellectually — this is a theory with weak mechanisms or concrete sense of cause and effect, i. e. correlation rather than causation. Furthermore, general economics discussions of "growth" tend to focus on general, but still vague, aggregate measures — GDP, unemployment, and the like. Yet today "growth" includes concrete issues: not only raising employment and reducing debt, but also attaining sustainable development in a context when demand alone might raise us out of recession but increase carbon output and increase threats to humanity's well-being from climate change. Vague "growth" is no longer an option. One defense could be to invoke positivism: start with basic assumptions and identities, and follow the math towards insights and predictions that can be tested. If the predictions hold, the model has validity for the moment, and the search for mechanisms can proceed separately [Krugman, 1998b]. Indeed, it was through formalism and a positivist approach that Einstein developed his general theory of relativity. Yet Einstein as a philosophical realist was concerned about a formalism that did not uncover realities driving observed phenomena [Isaacson, 2007]; excessive formalism can restrict scholarly inquiry as to how and why observations actually occur[13].

A constant criticism outside the economics profession is that economists' models do not take *institutions and structures* seriously or keep them exogenous (e. g. [Haggard, 1990; Wade 1988]. Economists can come close to institutional analyses when they invoke increasing global financial integration, foundations of asset bubbles, or portfolio movement [Claessens, Dell'Ariccia, Igan, and Laeven, 2010; Leila, 2011; Kilinc et al., 2012; Veld, 2013]. Yet institutions are seldom opened up to inspection — even Krugman admits that banks and financial institutions are more than generic financial intermediaries in the grand scheme of money flow. That this institutional arrangement can have a significant impact on economic adjustment is beyond question [Swagell, 2009; Saull, 2012]. Even pointedly institutional analyses in economics — e. g. "law and economics" or "new institutional economics" of Oliver Williamson [1975; 1985] — have a fairly restrictive conceptualization of "institutions" and "institutional effects"[14]. Arguably, dominant economic theory, i. e. the Anglo-American variety, takes as its institutional context an abstraction of the American economy, without considering concrete institutions that make this economy operate as it

[12] I. e. an individual close enough to a particular group to interact with its members but distant enough to avoid being trapped in its assumptions (e. g. toeing some ideological line).

[13] Take chemistry. Experiments mixing various chemicals did aid human progress, but once quantum mechanics uncovered how and why chemical bonds do what they do, experimental designs — and progress in medicine, industry, and so on — flourished more.

[14] Some famous economists have taken more nuanced approaches to institutions: Douglass North, Amartya Sen, and the late Albert Hirschman and Mancur Olson readily come to mind. Arguably they have had a greater intellectual impact outside economics, in other social sciences.

does. As well, there are only abstract, generic "actors," instead of concrete actors in relational positions (e. g. class). Who really thinks carefully about inflation targets and central bank interest rates — average consumers, or specific financial elites, consultants, and other institutional gatekeepers?[15] Yet various studies outside economics have shown that some institutional constellations are quite good at promoting innovation or, alternatively, triggering crises [Evans, 1995; Helmke, 2010], and that different forms of state-business relations and policies can be equally productive: sometimes successful in similar historical periods [Dobbin, 1994], or successful in one period but not so in another [Haggard, 1990]. Import Substitution Industrialization was successful from the 1930s until the 1960s, and then faced debt problems; Export Oriented Industrialization seemed predominant after the 1970s but ran into its own problems when the global market faced shocks. There is no universal "best policy," yet general models such as IS-LM cannot differentiate. Finally, capitalism itself tends to generate crises that have institutional foundations. Minsky [1986] noted this, and Harvey [2005; 2010; 2013] has expanded on Marx's classic analysis to suggest that contradictions inherent in capitalist institutions and capitalism's requirement of increasing returns inevitably leads to crisis — not so much crises borne of working class solidarity and protest, but rather financial contradictions that invariably explode into recessions and depressions. And environmental "ecocide" is catching up with us and with capitalist institutions that stress making profit in ways that rely on consuming finite natural resources in a fragile global environment we are ruining by the day.

This raises an important theoretical distinction: that between *techniques* and *technologies*. A *technique* is a particular way of doing something; tools involved are assumed as given. *Technologies* are those tools, which can be constructed, deconstructed, or revised. An institutional analysis is an analysis of technologies (the constellation of existing tools) as well as techniques (how they are used). Comparative political economy and economic sociology are essentially about histories and variation in the construction and use of technologies. These approaches do not always take GDP, employment, or similar measures as objective, universal indicators of economic "success." Indicators of positive economic development depend on how "development" is defined by those who stand atop institutions. Does "development" mean higher GDP, or does it mean strategic control of important resources and increasing state power, as one could argue is a prime logic of the political economy of Kremlin *siloviki* [Hass, 2011; 2012]?

Neoinstitutional Field Theory

One possible approach uses field theory: business organizations are organized into fields of firms with perceived affinity (usually output, e. g. auto manufacturing, or consumer durables). In field theory [DiMaggio and Powell; 1983; Fligstein, 1990], owners and managers focus as much on each other as on consumers and suppliers — perhaps more, for their peers are not just competitors but also sources of information about the "normal" and "legitimate" way one conducts business. In his study of the twentieth century American

[15] In a similar logic, Rogoff [2014] claims central banks will not raise inflation targets because they would lose credibility before "the public" that would then distrust them. Why "the public" would distrust bankers who learn from experience (inflation targets set too low) is bizarre, and who "the public" is — and whether "the public" in America follows central bank policy and has real power — remains obfuscated via the abstract, generic "rational actor." If *financial elites* lose faith in central bankers or challenge policies, raising inflation targets might fail. But this moves us from abstract, generic actors to social structure, including class interests and power.

economy, Fligstein focuses on "conceptions of control," i.e. standard organizational strategies and structures that field leaders impose on other members of the field and that are dependent in part on the legal framework in which these firms act. Fligstein proposes historical conceptions of control: cartels and price wars to maintain price stability (price wars as punishment for those firms that undercut competitors' prices and destabilize production and sales); a manufacturing conception of control, in which firms focus on production of a particular output; a sales and marketing conception of control, in which firms expand output to avoid competition and bring in income from various sources (thus reducing risk from the collapse of demand for one product); a financial conception of control, in which product output is far less important than financial markers (such that steel firms can enter the oil business, which was unheard of before the 1970s); and a share value conception of control, in which corporate strategies and structures are grounded in short-term share value, rather than financial criteria (e.g. strict measures of costs and expenses from different activities) or actual output.

Using this model, Fligstein proposes an interesting hypothesis about the duration of the Great Depression. Rather than a problem of a zero lower bound, the gold standard, monetary policy, or other standard explanations, Fligstein suggests that the dominant manufacturing conception of control made it difficult for firms to emerge from stagnant production and sales. For example, Ford Motors focused on production and output, and thus stuck with the Model T. However, as aggregate demand suffered in the American economy, Model T sales suffered — and so did Ford's future. The manufacturing conception of control did not allow managers to consider using varied output to stabilize income. General Motors, it turned out, stumbled into a new model that stressed varied output, with different cars targeted to different classes. Cars for better-off Americans continued to sell, which helped General Motors maintain production and innovation. American firms reoriented strategies and structures to the GM model, and the sales and marketing conception of control emerged. This allowed American firms to improve market positions and contributed (but did not determine) emergence from the Depression.

Until the present, that is. In the most recent conception of control, corporate strategy and structure focus on short-term value of stocks and bonds and the use of complex financial technologies to move money, not necessarily products, around. In short, this is less a manufacturing economy than earlier. This new conception of control also required liberalized financial markets and tools, which the American government provided. Eventually — as Minsky might have predicted — this bred contradictions that exploded in the housing bubble and financial catastrophes of 2008. However, in this new conception of control, reliance on financial tools to measure the worth of business practice means businesses are loathe to expand too quickly, simply because they are not focusing on consumers and demand of a particular set of products as before. The newest conception of control is built on *short-term financial evaluations for maximum financial gain*, such that any short-term risk is amplified in the eyes of investors, ratings organizations, and managers[16]. The manufacturing and sales/marketing conceptions of control had a longer-term vision, and short-term risk and loss was not so important. It seems that the recent spate of bubbles (1980s S&L crisis, dot-com bubble of the late 1990s, recent real estate bubble) suggests that fundamentals of economic practice

[16] Additionally, this adds structure to Minsky's model of pitfalls of stability — underappreciation of risk seems decoupled from broader social forces, e.g. institutions, discourse, etc. In a field framework, the framing of risk can be modeled to explain how it is perceived concretely.

shifted from neo-Keynesian policies and practices of slow, managed, but stable growth of the post-war period to a riskier and less predictable global economy that rewards the 0.1% and leaves all else to suffer fallout from risky investments gone bad.

Contemporary Political Economy of the State

Fligstein's model tends to focus on fields of business actors and keep the state at some distance; the state as actor basically sets general rules of the game (e. g. constraining monopolies or cartels). This is due to Fligstein's focus on the American economy, in which the state plays a relatively distant role. However, a comparison of state-business relations and politics reveals other possible forms of technologies, that in turn might influence a "way out" or lag on economic recovery. Here we return to classic political economy of Karl Marx and Max Weber (among others) with recent revisions, in particular regarding the variable role of the state and state-business relations. Two works are of particular interest here. First, John Zysman's [1983] analysis of responses to the oil shocks of the 1970s revealed that some forms of financial relations and technologies worked better than others in extricating economies from stagflation. Those economies in which the state was central to financing and for which state officials and technocrats were well trained were able to shape and finance business restructuring so as to reduce energy costs and produce goods that conformed to new demand in the era of higher oil prices. For those countries in which banks play central roles in financing and thus in devising new strategies — for banks then had representatives on boards of directors in return for long-term loans — recovery also did not take long, as long-term strategies predominated over considerations of short-term costs and risks. Countries relying on financial markets and autonomous firms did not fare so well, for there was no concentrated search for strategies that optimized the health of individual firms *and* the entire economy. France was Zysman's empirical example of the state-led economy and recovery; Germany provided a bank-led example; Japan was an interesting combination of the two (where state and business work closely devising long-term strategies, and the state and *keiretsu* banks provide long-term financing). The United States and Great Britain were examples of market-led restructuring that did not emerge from the oil shocks so easily.

A second approach is that of Peter Evans [1995], who posits various forms of state-business relations can led to different degrees of "embedded autonomy," i. e. a situation in which states are simultaneously embedded in economic relations to understand real business needs, but also have sufficient distance and autonomy so as to negotiate policies that work both for businesses and the public. States too autonomous can be predatory (many African countries) or ineffective in promoting useful policies (India). States too embedded are captured by business interests and end up defending elites' gains (the United States, much of Latin America). The perfect balance, Evans claims, enabled South Korea and Japan to develop optimum strategies for development: the state defended domestic firms against foreign competition (imports) but forced domestic firms to compete with each other and with foreign firms in foreign markets. However, such a condition requires the conjuncture of several important historically contingent dynamics. First, a state must have sufficient autonomy and insulation from society (especially elites) so as not to be captured. This requires a civil service that is well educated and compensated, with high status and high requirements for entry. This also requires that the state have its own resources for shaping policy and discourse, for example social scientists working within the state rather than for private "think tanks." (Europe and Japan tend to have such states.) However, the state

cannot be too insulated; networks must exist between state officials and private elites. Elite education at a small set of universities can encourage formation of such networks: Oxford and Cambridge in the United Kingdom, the *Grandes Écoles* in France, University of Tokyo (Japan) or Seoul National University (South Korea). (Note that American Ivy League universities tend to send alumni into the private sector.) Such networks can facilitate dialogue between the state and business, such that economic development can be long-term and oriented not only to profit but also to investment in sectors from which the entire country would benefit. This goes some way to explaining the rise of Japan and South Korea from the ashes of World War II. Finally, the state must have sufficient resource control, for example significant financial resources (Japan, South Korea), but not so much as to be overbearing (as in socialist countries).

One problem with this model is not its analytic power, but its sense of pathos. Optimal state-business relations are not easily created: state attempts to guide the economy elsewhere have ended in capture by the state or shortsighted policies resulting in eventual crisis. Such were the dynamics of state-led growth in various Latin American countries by the 1970s and 1980s. State-business relations can also hide possible corruption or deeper institutional problems, as has happened with corruption among South Korean *chaebols* or the real estate bubble and troubled bank finances in the late 1980s that were kept hidden and eventually led to Japan's continuing economic troubles. (That markets are imperfect does not mean states are perfect.) It seems that one pathway to such a state-business balance is being in a difficult geopolitical situation — a business elite weakened by previous war (Japan, Korea) and a state forced to focus on economic growth to survive geopolitical competition (East Asia, also Germany in the nineteenth and twentieth centuries). But engineering economic greenhouses, state-business balance and relations, and growth through experiencing war and geopolitical duress seems a difficult path.

A third approach is that of Michael Piore and Charles Sabel [1984], who argue two points. First, post-war economic institutions and policies were infused with Keynesian recommendations, but only imperfectly. Concessions to labor unions and welfare programs aided stability and growth in consumer demand and stabilized sales and profit. Constraints on capital availability and mobility, and constraints on business expansion, ensured slower but steadier growth and the avoidance of financial and asset bubbles, as well as a focus on production over speculation. Stocks of oil, food, and cheap labor — all of which were disturbed in the 1970s — could act as buffers against sudden needs for these inputs, aiding price stability overall. Second, Piore and Sabel argued that there have been two basic forms of production, mass production and craft production. Mass production involves standardized production and output so as to gain economies of scale; large investment in technology is required, and deskilling of labor might emerge as a result. *Mass production* can produce enormous output and profits — but it requires, above all, stability in prices of inputs and demand. *Craft production* retains a skilled labor force able to adapt to changing consumer demand or macroeconomic context. The focus is on smaller batches of specially produced goods — e. g. gourmet food versus mass produced McDonald's hamburgers. The drawback of craft production is that large-scale output and profits are not so possible, given the reliance on people and not machines. Yet flexibility can be a powerful advantage. Further, in craft production, skilled workers contribute to the process of innovation, as they have more experience with the nuances of their product and production and have greater voice vis-à-vis engineers and managers to suggest improvements in output or production.

In their analysis of 1970s oil shocks and recovery, Piore and Sabel note that countries with craft production — namely Germany and France, but also Japan — were able to adjust their processes of production to reduce energy costs and to address changes in consumer needs and tastes more quickly, and thus emerge from the oil shocks more quickly. The United States had a harder time recovering, given the centrality of mass production. Entire industries, such as steel, were gutted quickly and replaced by mass services. This intersects with Zysman's argument: autonomous, mass producing corporations did not have craft flexibility to cope with oil shocks, and they were not directed by state technocrats or bankers. The result was deindustrialization and a shift to craft production in high-tech — and a longer time reinvigorating the economy.

Political Economy of Class Power

No discussion of political economy would be complete without some reference, even in passing, to legacies of Karl Marx and Max Weber: fields, states, and other institutions "act" as used by *elites and classes*. Yet within much mainstream analysis, class power and contradictions of capital are downplayed. While we can debate the validity of these techniques, other forces might make techniques irrelevant. While *ideologies and interests* are exogenous to much formal theory or are admitted on the sly[17], these might be too important to be left aside. Note how Krugman has recently turned to a rudimentary class analysis. While austerity and reducing debt have *not* led to economic improvement, the only reason Republicans have fixated on these was to dismantle welfare programs for class interests and ideologies — the very thing undergraduates in political science and sociology could have told the Nobel laureate long ago. Krugman [2014c] also suggests that financial experts criticized quantitative easing because it threatened defend their interests (rapid movement of capital) and their ideology. Wren-Lewis [2014b] and Smith [2014] chimed in with similar observations: financial experts' policy prescriptions were no better than those of right-wing politicians and many in mainstream economics (e. g. Mankiw, Cochrane), because of egos and status as well as alliances and interests — which points to class. That this should be a surprise to Krugman or others, at least publicly, suggests weaknesses of exogeneity in his framework and in much economics. The problem with even Krugman's enlightened approach is threefold, and telling of shortcomings in mainstream economics. First, Krugman invokes ideologies and interests in an *ad hoc* manner to explain why correct Keynesian policies have not been adopted; yet ideologies and interests have no real place in the rational expectations foundations of standard theory. Second, the mainstream approach presumes a "public" of consumers and entrepreneurs who really do think as rational actors looking ahead to monetary policy or who even have the know-how to think about this. Knowledge and frames of interpretation, which cognitive psychologists assure us are far from straightforward, are just missing in mainstream models and even in behavioral economics. Finally, the public of consumers and entrepreneurs are not homogenous and certainly not atomized and free-floating. Rather, they are embedded in social relations such as class, race, or gender, which help shape ideologies, identities, and interests.

[17] Mancur Olson [1982] did admit, *in a footnote*, that class ideology and identity might matter in the British economy. Yet observations from his experience in the UK did not make it into his analysis.

Two important scholars in the tradition of political economy of class are G. William Domhoff and David Harvey.[18] Taking Marx seriously has been one of Harvey's goals, and his recent book [Harvey, 2014] is the culmination of years of hard thinking and lectures on applying Marx's insights — drawn from observations of early nineteenth century capitalism — to the situation today. Harvey is not very optimistic about the human condition. While capitalism can be dynamic and innovative — Harvey does not deny this potential inherent in capitalism (and neither did Marx) — this particular set of institutions and institutional logics contains seeds of recurring crises. However, unlike Minsky, Harvey locates the source of crisis not in individual actors' bounded rationality, but rather in structures that make capitalism operate. In particular, capitalism tends towards an imbalance between accumulation and investment or returns on investment; if the former is greater than the latter, then capitalist elites (owners of property), pursing the logic of accumulation, will turn to additional tactics that are ultimately self-destructive. In particular, techniques and technologies that reduce labor costs might bring innovations, but they also deskill or cause pain in shifting labor markets — and if welfare policies for redistributing wealth are too weak, then the accumulation of capital leads to a majority of any population with decreasing wealth for consumption. The result is recurring crises in demand — recessions or depressions, like that crisis we have recently faced and continue to face. At the same time, a small sliver of the population, the ruling elite, sees its wealth increase by a staggering amount. And just as average wages in the developed world have stagnated, elite wealth has growth precipitously.

Inequality, reliance on bubbles to sustain accumulation, reliance on taming states and reducing labor costs and labor power are the ingredients for economic contradictions that periodically flare up. These contradictions might be temporarily mitigated by state policies that defend labor or redistribute wealth — for example, Keynesian and welfare policies from the 1930s to the 1970s — but eventually these too will succumb to accumulation and the power of elites, who have managed to increase rent-seeking behavior as well as defend neoliberal ideologies that still guide Western policies — not only austerity, but defense of private property and keeping a tamed state at arm's length from the sacred "market." Finally, while elites see their wealth grow, we might have entered a period where labor markets remain tight, wages stagnant, and an unemployment rate of perhaps seven percent to be a new norm. Meanwhile, states have adopted increasingly militaristic means of defending "public order," whether kettling and similar tactics in Great Britain, expanding surveillance in the United States, or rule by law rather than rule of law in Russia. Capitalist institutions generate crises and an elite (with feet in the political as well as economic realm) that defends those institutions, to the detriment of the rest of us. Unless a fundamental shift in ideologies, policies, and institutions arises contingently — and this would require revolution — economies will recover eventually to the benefit of elites. Yet now, with environmental disaster looming, the days of capitalism could be numbered, due less to popular protest than contradictions between humanity and nature.

While Harvey focuses primarily on institutions and institutional logics — with actors following capitalism's imperatives of accumulation and control — sociologist G. William Domhoff [2013] argues that actors and institutions coexist and interact: one shapes the other. Just as the rise of corporations and corporate boards gave rise to "interlocking" rela-

[18] Piketty's [2014] recent and potentially "groundbreaking" work — which doesn't say much new but does provide rigorous analysis — came out too late for this paper, but from my reading of initial reviews, it buttresses class-based political economy.

tions that drew elites together and created a stronger corporate, class identity, these elites then proceeded over time either to limit the effects of state policies vis-à-vis capitalist power and profit, or hijacked states and state policies to increase their own wealth. To understand elite power in the United States, Domhoff uses such measures as "Who wins?" (whose interests are served or institutionalized in policies) and "Who gains?" (variation in profit from policies). Domhoff's thesis is straightforward: unless there is a combination of fundamental structural shocks and a split among the ruling elite, policies that lead to crisis and during crises ultimately benefit the power elite, even if on the surface they seem to reduce elite power to the benefit of non-elites (e. g. welfare policies). Ultimately, Domhoff's thesis is not particularly complicated: elites use both institutional and family capital (economic, cultural, social) to maintain collective identity and cohesion, to mobilize efforts to act on their interests, and to prevail in political conflicts with the state or other classes (for example, in breaking trade unions or reducing taxes and regulations). For Domhoff, elite power is not automatic, but rather historically contingent on the relative resources, cohesion, and power of the elite, the state, and other classes involved. In countries with a tradition of stronger, centralized states, then the power elite might not always be victorious, as they might not have control over discourse or finance: for example, significant investment comes from the state, and the state has its own in-house technocrats and analysts for formulating policy and shaping public discourse. Important for us is that the more powerful the economic elite and power elite, the more likely that crisis and post-crisis policies will serve their interests over those of other groups: for example, crisis policies will aim to bail out banks and other important organizations, while maintaining low taxes and regulations on corporate income and practice. Wealth will be redistributed from the 99% to the 1% in such a scenario. However, we should be careful not to presume that one type of policies automatically means one type of causal relations: a country might have austerity policies not because of a strong economic elite, but because austerity ideology dominates state technocrats. The influence of the elite must be traced empirically.

5. Propositions of Field Theory and Political Economy

Propositions from the debate between Keynesians and austerians are fairly straightforward: compare rates of growth across countries or sites with different degrees of austerity or stimulus. Yet this is variation at a large scale, through mechanisms not well understood or, at best, hypothesized (or imagined). Variation between countries with similar policy approaches (austerity or stimulus) might reveal more about the role of institutions and institutional configurations. For sake of discussion and further research, I suggest a few propositions one could derive from the variants of field theory and political economy that I discussed earlier.

1. *The more integrated various fields are, the more likely contagion will spread — but conceptions of control within fields can further facilitate contagion or restrict it, not only through actual or resource conditions, but also through similar assumptions and models of how to respond.*

If Fligstein [1990] is correct, one facet of fields has similar perceptions of risk and opportunist and similar strategies of responses and structures. The present "conception of control" in the American economy is the shareholder conception of control, in which the fundamental criterion of normality is short-term share value of firms [Fligstein, 2008].

From the explosion of the crisis on, short-term financial considerations trumped all other considerations for policy. To continue consuming, which would have picked up demand, would require longer-term thinking than the present model of normal business allows. Rather, in a short-term view, the best approach is to sit on cash — maintaining low wages and low purchases, thus perpetuating stagnation — because hoarding capital provide low-risk short-term responses to risks to share value. Further, increasing prominence of financial measures has meant greater centrality of "Wall Street," i. e. financial experts and operators who provide ratings (measures of normality) and access to the tools and capital of investment. Claessens, Dell'Ariccia, Igan, and Laeven [2010] did suggest that integration facilitated contagion of the 2008 crisis, and we can posit that more than the sudden evaporation of capital flows was at work: *something* was driving decisions that led to such evaporation. Hence, one research strategy would be to measure to what extent there has been increasing similarity across different fields (production of consumer durables, high-tech, heavy industry, etc.), and then to ascertain whether the shareholder conception of control remains predominant.

Stated thus far, this proposition is America-centered, in part because neoinstitutional analyses are American-grown and focus on the American economy. We need not restrict ourselves, however. What if time horizons in a particular conception of control are longer-term? Historically, Germany and France had longer-term horizons because of closer state-business and bank-business relations: loans and financing were longer-term, with a focus on eventual gain in market share domestically and internally [Zysman, 1983; Dobbin, 1994]. However, the German-dominated approach within the European Union has been austerity: in part so that German banks could avoid further losses on loans to the European "south," but also because part of conceptions of control in German fields focus on low debt or managed debt — in contrast to short-term loans given out primarily to generate profit through interests, this would mean longer-term loans aimed at healthy production and secure market share, with bank representatives within businesses helping control the use of those loans — and high savings. Further, institutions of the European Union have created a new overarching "master field" into which European countries have been slowly integrating [Fligstein, 2008]. However, this integration is far from complete or inevitable, as clashes over the proposed "European Constitution" demonstrated several years ago: French voters rejected it for being too neoliberal or British, while the British public likely would have voted against it in part for being too "Continental" — that is, the principles of a pan-European field, institutionalized through the European Union, ran afoul of field principles and political culture of current EU members or affiliates. Thus, within Europe we see one general policy approach — austerity — clashing with various lower-level policies involving different fields and field principles (state-centered corporatism in France, more local corporatism in Germany).

Therefore, at present a more concrete proposition: *an incomplete pan-European field and competing lower-level fields have created uncertainty, contributing* (*with austerity*) *to stagnation*. This could be generalized to propositions about relations between fields: local fields (states or provinces, specific sectors or markets), national fields (with states playing an important role), and trans-national fields (regional blocs such as the European Union or NAFTA, and perhaps an emerging global field with the WTO and dominant economies at its center). Thus: *the more integrated nested fields are, the more coherent policy responses and practices will be; but the more contradictions and contention exist between nested fields, the*

more problematic the development, legislation, and implementation of policy responses and effectiveness will be.

Finally, we should keep in mind that policy goals, and criteria for evaluating them, are empirical issues that should not be presumed *a priori*. Much scholarship tends to presume GDP and unemployment are the best indicators of policy success — yet state leaders and technocrats or business elites might have interests and ideologies that differ from this standard line. Thus, *aims of policies should reflect principles of economic normality in fields and practices.*

2. *Greater centralization of financial resources around states should — presuming sufficient state capacity — lead to quicker and more resolute responses to financial and monetary crises.* This proposition follows from Zysman's model of financial relations and political economy. We expect the likes of Russian and Chinese state elites to have more technologies available for rapid responses, whereas economies with more decentralized structures of financial control and flow will face greater difficulties mobilizing extraordinary policies. Certainly this seems to be the case of China and Russia versus the United States and European Union, and this correlates with the proposition above. Once upon a time, France could use state control over finances to stimulate its economy — but membership in the euro zone has made this more difficult, even for a socialist president such as Hollande.

However, a rapid response need not mean an effective response. Therefore, following Evans [1995], we could propose that *the more coherent a state and the more professional and institutionally insulated higher-level state officials and technocrats, the more effective public policy should be.* Some potential measures for testing this proposition could be measures of educational level and experience of ministers and their immediate subordinates, as well as relations to political parties or economic elites, and the presence of in-house (state-run) think tanks and organizations for analysis and policy proposals. Further, *an institutionally insulated state with social networks between business and technocrats should be able to craft more successful crisis and post-crisis policies.* In this case, networks between business and state officials or technocrats could facilitate discussion of necessary actions needed to alleviate crises, yet state officials would be more able to pursue policies that benefited both business *and* the public good.

3. *Economies based on craft production will have greater flexibility to respond to crises* (*all other forces noted above being equal or accounted for*). This proposition is drawn from Piore and Sabel's [1984] account of logics of production (mass versus craft) described above. An initial glance at data suggest there might be something to this thesis: financial problems aside, fundamentals of production and output in Germany and Japan remain fairly healthy, whereas mass production in the United States has been hurt badly or has recovered slowly, given that mass production is more at risk from fluctuations in demand or sustained weak demand.

4. Following Harvey's analysis, we can propose that *the logics of capitalist institutions will favor policies that privilege accumulation first, investment second.* Thus, we expect that policies and business practices that generate asset or other bubbles should provide a relatively easier way out of crisis, and that elite actions and public policies should encourage bubbles and rent-seeking, rather than fundamental reforms. In fact, we should least expect

fundamental economic reforms in response to crisis. However, this is a *ceteris parabis* argument, and to be flip, *ceteris* is not always *parabis*. Harvey's [2014] analysis treats capitalism as a general category; but political economy suggests variation across capitalist economies, e.g. the relative power of the state or other organized classes (e. g. trade unions). Thus, *where states and other non-elite societal actors are well organized, we expect less an emphasis on rent-seeking or bubbles in crisis and post-crisis policies and practices, and more emphasis on redistribution*. However, *where non-elites are less well organized, we expect elites to favor rent-seeking or similar policies that have a greater probability of being enacted*. The rent-seeking behavior of American Wall Street elites or Russian *siloviki* and oligarchs should be reflected in policies of these countries, where non-elites have been pacified. We expect that in other countries with stronger civil societies, rent-seeking and similar behavior will be less supported by public policies — even if austerity is the general logic of crisis and post-crisis policies.

5. Following Domhoff's basic framework, we could propose that *the more powerful the economic elite, the more likely crisis and post-crisis policies will benefit the elite — even if they do not benefit the vast majority of the population*. We could use various measures to test this proposition without risking tautology (i.e. policies that benefit the elite must be a sign of elite power). First, we could propose that *the worse a country's Gini coefficient, the more likely a power elite will have disproportionate resources and influence over policy*. A second proposition would focus on state structure and echo earlier claims and propositions of political economy: *the more centralized a state, the more power a political or state elite will have, and thus the more difficulty the economic elite will have realizing their interests in public policy*. A corollary proposition would be that *the more decentralized a state, the greater influence an economic elite should have over policy*. This is because decentralized states are likely to be less coherent, and different branches and levels of government would face more difficulty mobilizing resources against a smaller and more unified power elite. Finally, we return to another proposition from political economy that can operate in Domhoff's framework, namely, *the more techniques and technologies a state has — more coherent and developed structure and use of resources — the less likely a power elite will have predominant influence over policy*. A centralized state with control over finances can use public works, rather than monetary policy, to improve employment and aggregate demand; this would spread resources across society, rather than risk their concentration among financial and other elites and their institutions.

One potential problem with propositions generated from Domhoff's power elite framework is that it elite structure and power are only a *potential* for influence, and thus elite success is contingent not only on structural (class) relations, but also on actual politics of confrontation, alliances, and actions. Weak leadership either by economic or political elites could lead to different trajectories. This said, we could use a few indicators to aid us in making predictions.

6. Conclusion: Troubled Theory and a Troubling Future after the Crisis

These propositions do not inspire confidence. Harvey suggests crises are recurring, and exiting a capitalist crisis requires new technologies for profit — but with environmental crisis upon us, the capitalist model might no longer be a pathway to stable prosperity. To

those who follow Minsky, recovery will lead to overconfidence, risk, and crisis again. While Krugman's neo-Keynesianist model admits ways out of crisis — either eventual slow recovery with plenty of pain, or more radical solutions elites are not likely to try (for reasons of interests and ideologies) — in blog posts he has also echoed Stanley Fisher's worries that we might have entered a period of perpetual stagnation. With slow demographic growth, productivity and technology gains will not be enough to maintain stable growth, which will rely increasingly on bubble economies — and bubbles burst. Field theory suggests that, at least for the moment, conceptions of normal business practice that focus on short-term maximum financial gain (at the expense of concern with output, risk, or welfare) will continue to support bubble economies and short-term fixes rather than fundamental structural and institutional reforms. Until field rules shift, we will repeat this history. Finally, the dismantling of welfare policies and restraints on the pursuit of profit and capital mobility have served the interests of the global elite, especially the 0,1%. Even if risky behavior, capitalist contradictions, and conceptions of normal practice lead to periodic crises, the neoliberal project of constraining states, citizens, and democratic accountability of capital have allowed predatory behavior to expand unchecked. Regaining lost rights and remaking the neo-Keynesian balance of the post-war years will take incredible collective action across and within countries. Perhaps the real tragedy, paradoxically, is that the crisis of 2008 was not bad enough. Only the shock of long lines of the unemployed on the streets, begging or waiting at soup kitchens, would spur working classes, middle classes, and professionals to put aside neoliberal illusions of easy wealth, nationalist superiority, and racism of ethnocentrism, and for a moment to use the power of numbers to reform institutions and policies that created crises since the 1970s. The dual specters of fascism and communism compelled Western elites to tolerate welfare reforms; will this history repeat itself? Alas, this is an important topic demanding a paper of its own.

If these propositions do not inspire confidence in reality, what of mainstream economic theory and discourse — which were supposed to be alert for economic problems and to provide solutions based on objective, scientifically verified theories? Some leading economists (e.g. Krugman, Simon Wren-Lewis) believe basic economic theory explains fundamental dynamics underlying the unfolding of the crisis and shortcomings of policy responses, especially austerity measures. Other commentators are not so confident in the wisdom of the profession. In summer 2014, the blogger of unlearningeconomics.wordpress.com (who remains anonymous because, he claims plausibly, his biting critiques could harm his chances of obtaining a good job) ran a series of posts criticizing economists for weak intellectual and theoretical responses and excuses in the wake of 2008. Many in the profession leapt to defend economics and economists after 2008: economic theory worked well in the good times; or economies are too contingent and prediction is futile; or politicians ignore economists' recommendations; or theories still provide useful tools, even if economists do not always wield them well. Yet as this anonymous blogger documents, these defenses were weak: a theory that works well in booms but misses the busts is at best incomplete and at worst useless; inability to predict either renders economics as a science worthless or requires fundamental rethinking of "theory" (a problem plaguing all social science); laissez-faire policies that led to crisis were rationalized by much economic theory and discourse; and many supposedly useful tools were complicated formulations of rules of thumb that had been verified by real practice for fifty years or more. These criticisms are well-founded, and they are not original: most echo criticisms from economic sociology and

political science. The crisis of 2008 and problematic policy recommendations — and bitter divides within the Anglo-American part of this profession — suggest that economic theory required fundamental rethinking: not only specific components and claims of theories, but even fundamental assumptions and methods.

This does not mean economics as we understand it should surrender to political science and economic sociology. The propositions I provided here suggest there is much to mine from these two fields, but there remains much work to do as well — in particular, escaping a "pathos of powerlessness" that seems to pervade much sociology. Further, while Anglo-American scholarship has dominated discourse, there is much to learn from French, German, Japanese, and Russian scholarship (among others). These traditions have a greater appreciation for history and institutions, and even power and culture. Being outside the hegemonic powers of the United Kingdom (nineteenth century) and United States (twentieth century), scholars in these other countries have not always assumed that political culture and institutions of the Anglo-American hegemons are universal. Economic theory does need to expand its intellectual and methodological horizons to incorporate the likes of class, power, culture, and institutions. If the crisis of 2008 and problems of recapturing the genie of growth have raised doubts about infallibility and shown the need for rethinking, then non-economists and economists from other countries need to engage this issue more seriously themselves. At least, this would be the optimistic scenario — in contrast to an ending where history repeats itself as farce, or worse, as tragedy.

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