Preface

The United States and advanced world economies are mired in the worst economic crisis in 80 years. Economic growth is anemic, unemployment is rife, and major economies are paralyzed by high sovereign debt. There seems to be no way out of this mess. This book is a unique analysis of the Global Economic Crisis from the perspectives of both economics and law. By understanding the nature of the crisis, its causes, and how our national leaders have failed us, we can formulate a comprehensive strategy of debt reduction, investment, and reform necessary to restore health to the American and world economies.

Chapter 1 presents the stark reality of the economic conditions in the United States and in traditional developed countries, the European Union (EU) and Japan. In contrast, a group of about 30 nations including China and India are growing at rates of between 4 and 10 percent each year. The Global Economic Crisis is not simply a normal business cycle downturn, but an event that may change the course of the economic order in the world. The United States and the developed world face an Age of Austerity, a long period of stagnant growth and chronic unemployment unless bold new initiatives are undertaken.

Chapter 2 explains how understanding the course of the financial crisis is important, not only for historical reasons, but to realize that the crisis is not a single event but actually seven distinct interacting crises, each of which are still with us to some degree. Politicians tend to focus only on the last of the seven, the sovereign debt and budget deficit crisis. While this is very important, we need to deal with the other six aspects of the financial crisis as well. Debt reduction alone will only lead to a prolonged period of austerity.

Surprisingly, there is no agreement among policy-makers as to the causes of the financial crisis, a point that makes dealing with the crisis very difficult. Chapter 3 makes the case for 15 interacting causes of the crisis. Identifying the causes of the crisis is important because each of the causes must be addressed to prevent future economic failings and to assure the well-being of the financial system.

Chapter 4 describes how the first order of business when the crisis hit was to take emergency actions to save the financial system and the
The age of austerity

economy from total collapse. The fiscal and monetary measures taken by
the United States and other countries were unprecedented and controver-
sial. Because most policy-makers did not foresee the crisis, the measures
taken were done piecemeal and in reaction to events. Nevertheless, these
measures were necessary and staved off complete disaster. But we must
realize that these emergency measures were not designed to return the
financial and economic system to normalcy. And, although the measures
taken were necessary, they had the effect of exhausting the normal tools
available to produce future economic growth.

Chapter 5 analyzes the international measures taken by international
institutions to deal with the Global Financial Crisis. In some ways inter-
national cooperation was remarkable, but many differences emerged and
remain among important nations. The crisis revealed the shortcomings of
many international institutions such as the International Monetary Fund
and the Basel II Accord. This chapter evaluates the international measures
taken to address international causes of the crisis and documents the his-
toric changes in international economic power that the crisis is producing.

Chapter 6 is a succinct analysis of the historic Dodd-Frank law (the
Dodd–Frank Wall Street Reform and Consumer Protection Act), which
was passed by Congress in 2010 to deal with the major causes of the finan-
cial crisis and to prevent such a crisis from happening again. Dodd-Frank
is a complex law that will take many years to implement fully. Dodd-
Frank does not radically alter the existing financial system, but seeks to
address the major problems posed by the present system. The purpose of
Dodd-Frank is not to promote economic growth but rather to fix what
went wrong during the Global Economic Crisis.

Chapter 7 makes the case for a three-part assault on austerity to produce
sustainable, robust economic growth and full employment. As much as
anything, America needs an inspirational solution to provide the nation
with a psychological boost. The three-pronged approach is a very ambi-
tious version of the much-discussed “Grand Bargain.” The plan responds
to three different but complementary needs: (1) the need to restore fiscal
order; (2) the need to create jobs and economic growth; and (3) the need to
address the continuing mortgage crisis and to restore the housing markets
to normalcy. This chapter proposes (1) a plan to reduce the federal gov-
ernment’s budget deficit by US$7 trillion over ten years; (2) a visionary
infrastructure investment program that will provide jobs and inspire and
change the way Americans live and work for the next 100 years; and (3) a
multi-tiered plan to end the mortgage foreclosure crisis and to speed the
rehabilitation of the housing markets.

Chapter 8 summarizes the thesis of the book.