NOTES ON NOURIEL ROUBINI

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Introduction

Most visible pols and pundits worldwide, and especially in the U.S.A., bought into the boom mania of 2001-08, and by buying reinforced it. Several Georgist economists, especially those who had studied their Homer Hoyt, shunned the a priori fads of the period. They kept their heads while others were losing theirs, successfully projected historical cycles into the future, and forecast the calamities of 2008, plus or minus 2 or 3 years. Among these were Harrison, Foldvary, Gaffney (by the skin of his teeth), Phillip J. Anderson, and others. Even after the fact, leading "mainstream" economists and pundits could ignore these foresighted Cassandras, or dismiss them as unrefereed bunglers who may have stumbled on the truth, but unworthy of refuting or heeding. Most of the leading pundits remained leading pundits in academe, the media, and the new administration.

An anomaly was Alexander Field, Jr., who published a complete scholarly summary of Hoyt and several similar students of historical cycles, but then declined to project their cycles, saying in effect that the modern mastery of macro-economic theory and policy had relegated cycles to the dustbins of history. This was in 1991 at the annual meeting of the AEA (published 1992). This glaring error has not stopped him from rising to eminent positions in many professional associations.

At the same time, there were some economists with no known interest in either George or Hoyt who forecast the crash of 2008 on other grounds. Outstanding among these was Nouriel Roubini, whose gloomy prognoses were so persistent that too many leading economists teased him away (before 2008) as "Dr. Doom".

I. Roubini made a big splash when fairly young, in spite of coming from abroad. Why?

A. It was partly because his flaming meteorite fell into an empty sea

1. Rational Expectations came into vogue, as though the crash of 1991 had not occurred, and speculators in stocks and land were omniscient.

2. No one of note seemed to be thinking or saying that Japan's lost decade following its unmatched peak in land values in 1990 held any portent for the U.S.A.

3. Presidents Reagan and G.H.W. Bush advertised Triumphalism and victory in The Cold War. It was to be a New Era of endless Peace Dividends.

4. Bernanke heralded his era before 2008 as "The Great Moderation", and yet kept his job and reputation.

5. Christine Roemer announced that we have conquered the business cycle. President Obama made her head of his CEA.

6. Robert Hall's Committee of the NBER on dating business cycles reported the Dot-com crash had ended in a new kind of prosperity, "The Jobless Recovery". Leading economists relayed Hall's pronouncements as "official", and said and still say unemployment is a needed corrective to hold down wage rates and keep America competitive.

7. President G.W. Bush signaled "Mission Accomplished" in Iraq. There was to be another Peace Dividend.

8. The Class War accelerated with victories for property owners and monopolists, and disasters for labor and most youth. It continues today.

9. Clinton's "Triangulation" abandoned his Party's egalitarian and/or progressive traditions.

10. G.W. Bush and his Congresses defunded and wrecked most agencies inherited from Progressive or New Deal administrations.

11. Tax laws - Federal, state, and local - grew quickly and radically more regressive. At the state/local level, sales taxes burgeoned while property taxes shrank. At the federal level, corporation income taxes shriveled from a major to a minor fraction of revenues, replaced mainly by payroll taxes; the personal income tax base evolved drastically from property to wages.

12. Congress and Administrations and the Federal Reserve Banks bailed out the biggest Wall Street banks after 2008, letting small "Main Street" banks go under, along with small businesses and debtors.

13. Radical fans of "Tea Party" policies founded and richly endowed scores of new "think-tanks" nationwide. Most academic economists, policy journals, and the media accepted and reproduced their research and publications as though their paid staff were objective independent thinkers and researchers comparable to (idealized) college professors.

14. They also funded and took over several established departments of economics, while the profession as a whole, and its journals, accepted these departments into their ranks just as though they honored academic freedom which had flourished, or at least survived, for an interval after the AAUP had organized after W.W. I to protect tenure and academic freedom. (continued on p. 8)

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15. Economic pundits ignored or trivialized many harbingers of the great crash, like the 1991 crash, the LTCM disaster led by Nobel Laureates, the Mexican bailout, the 1997 Asian crisis, the dot.Com bust, the endless Japanese depression, etc.

16. Reporters are always seeking a negative to make their reportage look balanced; Roubini was always there to supply one.

A. There were other chronic doomsayers. Most of them were ostracized for posing threats to private property and of course privatization, the spirit of the times. Roubini managed to be pessimistic without attacking or menacing idols of private property. The others also attacked conventional theory, posing an existential threat to the clerisy itself.

1. Minsky's followers saw "capitalism" as inherently prone to successive crashes ("Minsky Moments"). They would not bail out banking fraudsters but prosecute them, followed by reinventing institutions in unspecified but frightening ways.

2. Austrians saw deposit expansion by private banks repeatedly over-lengthening the time-structure of capital, leading to shortages of working capital, choking off the flow of investing. This would prompt deep inquiries, unwelcome to bankers, into the legal and constitutional bases of fractional reserve banking. Austrians also distinguished land from capital (since land has no period of production), potentially lending credence to Georgists.

3. The Cambridge University School challenged the logic of compound interest and would delete most of the economics of finance (hence the power of banks) from basic economic theory.

4. Oxfam deplored the concentrated distribution of income and wealth.

5. Enviros rejected the market-based logic of "highest and best use" of natural resources, and would replace it with ecologically-based values. Farm fundamentalists, similarly, would replace it with food-based values, warning of impending mass starvation.

6. Pacifists rejected imperialism and militarism as props for the macro-economy. They warned of the disasters of previous empires and would-be hegemons.

7. Georgists had workable ways to socialize and redistribute resource rents, and were beginning to team with Pigovians to tax effluents and nuisances and distribute the revenues as social dividends. They could and should have harmonized with Aldo Leopold's "Land Ethic", but neither camp seemed to realize it.

A. Roubini positioned himself to forecast economic crashes while "boring from with. He became "Dr. Doom" without challenging the clerisy's clubby core.

1. He began his studies outside the U.S.A. He was an intellectual "nomad" from early on, with backgrounds in Iran, Turkey, Italy, and Israel, where he mastered many languages and learned to understand many cultures.

2. Like an investigative reporter he reasoned from what he observed. He knew too much of too many worlds to buy into any of the canned -isms that newly ascendant neo-cons were purveying around D.C. and the Ivies. He takes an "historical, intuitive" approach - a major shift away from a priori doctrines.

3. He focused early on "emerging nations", which could mean emerging from colonialism, or a crash, or Communism, or feudalism, or tribalism, or peonage - anything retardant. An early specialty was Japan's Lost Decade after its calamity of 1991. One could expose errors of Japanese leaders, and draw morals, without insulting powerful Americans. He learned about credit bubbles from them. By the time he entered Columbia for a Ph.D. he knew a lot.

4. He seized the coat-tails of Jeffrey Sachs, who was reinventing himself as a liberal and enviro, after having served the Washington Consensus by imposing "Shock Therapy" on Russia and other nations emerging from Communism, often followed by disaster. "Wherever the parade was going, Sachs had to be in front" - David Ellerman. Sachs also steered his Harvard Institute for International Development (HIID) into scandal, but made a useful friend in Larry Summers before leaving for Columbia in time to miss the axe. With Sachs, Summers, and then Geithner as patrons, Roubini joined the club.

5. Roubini did not attack his patrons for being wrong when he was right, but praised them for inspiring him. Ingratiating or simply courteous, he stayed in the club.

6. Like Keynes before him, he favored devaluing currencies as the politically easy way to lower real wages. This, too, marked him as being in the club. Since not every nation can do this, it seems to lead to universal inflation, and his position on this is not clear.

7. He forecast crashes during the euphoric terms of Bush, Jr., jumping the gun by a few years. Critics noted that his doom forecasts lacked dates, and could happen over multi -year periods. Nothing daunted, he persisted until he was right.

8. He nailed the weak link in the Bush boom: the mortgage-backed security (MBS). He had seen land booms bust before, in "emerging" nations. The MBS label let him come at this in bankers' euphemistic language. It lets one avoid the word "land", taboo because associated with troublesome Georgists from outside the club.

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9. He favored redirecting investments away from "housing" into "more productive" forms of capital. But he didn't say "land", he said "housing", a safely ambiguous surrogate.

10. He would close down insolvent banks, not bail them out.

I. What have we learned from the Crash of 2008, and the following lost years?

A. Leading conventional economists had learned nothing from the previous Crash (1991).

1. They prated of a new era driven by new technology, in language reminiscent of the 1920s. "This time is different", they said. Alexander Field, Jr., referred to earlier, appears to have taken that tack.

2. They identified "prosperity" with rising equity values plus "growth", as measured by GDP, with rents included in GDP, as labor income made up a smaller share of national income.

3. Following 2008 they reverted to the same mindsets, still having learned nothing. We should learn from this that it will take a major shake-up in our intellectual leadership to avoid future crashes. Whether we WILL learn what we SHOULD remains to be seen, but if we don't we may, like previous world hegemons, go before a fall.

4. To overstate GDP in real terms they have gone to great lengths to understate inflation by tinkering with the CPI, guided by Michael Boskin. Boskin, like Robert Hall of the "jobless prosperity" mindset, draws his salary from the cushy Hoover Institution.

5. They thought in terms of abstract models derived a priori, ignoring the long history of booms and busts

6. They accepted high unemployment and low wage rates with a shrug, as Hall's "jobless prosperity". They accepted technological explanations, and a sense of inevitability. They euphemized unemployment as "leisure", a form of income.

7. They avoided engaging with the substance of Roubini's forecasts by ridiculing him as "Dr. Doom", as though his foresight were simply a perverse personality trait

A. The Crash of 2008 was preceded by 28 years of tax cuts and deregulation, panaceas purveyed by leading economists, who are still in 2014 teaching the same views.

B. The Crash of 2008 was preceded by nearly 20 years of a great peace dividend, indicating that peace by itself does not assure prosperity. Indeed, peace dividends help create an aura of business optimism that promotes the kind of land speculation that has led, historically, to major crashes.

C. The Crash of 2008 was preceded by an unprecedented surge in deficit finance. Roubini had observed crashes following trade deficits in "emerging" nations, and was not taken in. He wrote that we must find a new growth model, not based on "overconsumption" and lack of savings. Note that conventional Keynesians Reich and Krugman are still urging more deficit finance. Roubini warned against moving from insolvency of banks to insolvency of nations. He foresees a "G-zero world" where the U.S.A. can no longer subsidize other nations, and no nation can replace us.

D. By 2008 the U.S.A. had become world hegemon, having to fabricate and exaggerate new foreign menaces to justify maintaining an enormous military-industrial complex, fearing that peace would bring depression.

E. Even a crash as great as 2008 does not automatically change economic doctrines, or replace old leaders with new. Being an insider with financial support means never having to say you're sorry, unless and until social attitudes reform radically.

F. Leading bankers and agencies and SCOTUS still rely on the same sources of economic modeling, leaning however more and more towards think tank employees who lack tenure protection and favor extreme deregulation, privatization, regressive taxation, and lower spending on public education, welfare, social security, pensions, wages, and other such benefits for the lower 99%.

Conclusion

In summary, we have focused on Nouriel Roubini, who managed to forcast the crash of 2008 without apparently leaning on the works of Henry George or Homer Hoyt. He managed to overcome the scorn of critics who would dismiss him as just a congenital pessimist. He won acceptance in the "club" of leading and quotable economists, while basing his thinking on observations of history in "emerging" economies (including Japan). We note with regret that he is better at distinguishing housing from other capital than he is at distinguishing buildings from sites. We have learned from him how to bypass the errors of mainstream economists without relegating himself to the margins of their thought. We have learned, I hope, that there may be more for us to learn that will help us advance our own cause.

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