

**NOTHING IS AS IT SEEMS:
DIALOGUES ON THE GREAT RECESSION¹**

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SLIDE 1 - TITLES - (*music*)

[The protagonists are introduced on stage by the host. Max is wearing a suit and tie; Agatha a pantsuit, Forrest a pair of casual jeans; and Sarah a colourful pantsuit.]

HOST

... interprets **Agatha**. Agatha is a professor at a British university.

... interprets **Max**. Max is a professor of Economics and Finance in the United States, and consultant to a multinational financial company. He knows Agatha from many years.

... interprets **Forrest**. Forrest has recently completed his Ph.D. in Environmental Economics at the university where Agatha teaches.

... interprets **Sarah**. Sarah is in the third year of her Ph.D. in Anthropology at the same university as Agatha and Forrest. She has taken a few days' leave, to go with Forrest to a conference.

SLIDE 2 - DEPARTURE GATE - (*music*)

The protagonists casually meet at the airport. They are all heading to the same conference.

(The host retreats)

SLIDE 3 - FOG OUTSIDE THE AIRPORT

SARAH - Hey, look outside!

AGATHA - Oh yes, the fog's getting thicker.

¹ Theatrical adaptation of Morroni's book *What Is the Truth About the Great Recession and Increasing Inequality? Dialogues on Disputed Issues and Conflicting Theories*, Springer, Cham, 2018.

SARAH - I'm afraid we're going to be stuck here for a while, but listen, why don't we make the most of being stuck like this? ... I mean, could there ever be a better opportunity for someone like me, who understands very little of economics, to learn a bit from not one but three experts?

AGATHA - Well, why not. What would you like to know?

SARAH - Are people right to criticise austerity or not?

MAX - Oh right, the old story of "Poor old Greece"...

FORREST – Why not? Greece had a real economic tragedy.

MAX - Alright, alright! I can see you're already ganging up on me.

AGATHA - (*laughing*) We can all learn a lot from discussing things with those who don't share our ideas. And this goes for you too, Max... shall we begin?

AGATHA - Stiglitz and many other Nobel prize winners, have openly challenged the policies of austerity.

SARAH - On what basis?

AGATHA - Actuating austerity during a full depression is a very bad idea. Even the International Monetary Fund (IMF) has admitted that some Mediterranean countries have gone too far in their implementation of restrictive fiscal policies.

MAX - It's all just talking! Sarah, don't listen to her... there are no alternatives to fiscal rigour! It's obvious that a country with too much public debt has to stop spending. It's inevitable.

SARAH - Well, that makes sense, does it not?

MAX - Exactly so, budgetary control creates confidence in the financial markets.

SARAH - Okay, confidence... but in what?

MAX - In the state's ability to pay back its debt. If this doesn't happen, interest rates should then be raised. The level of interest rate is tied to the risk of not being repaid and is borne by the creditor if the state doesn't return the money at the due date.

SARAH - I see.

MAX - A lack of confidence means that interest rate must be high in order to attract investors.

Recall Argentina's crisis a few years ago: The Treasury Bonds interest rates shot through the roof, until inevitably they got to a point of insolvency which forced the government to default its own public debt.

FORREST: Does anyone fancy a coffee?

MAX: The bar is closed, but there is a coffee machine further down. Let's grab a coffee.

WALK TO THE COFFEE MACHINE

SARAH – Back to our conversation, I'll admit that I have a very vague memory of Argentina's crisis...

MAX - Argentina's crisis is just one of many examples. A budgetary discipline favours confidence in the ability of government to pay off its debt; this reassures those who wish to buy Treasury Bonds, and also keeps interest rates low. Low interest rates also foster economic growth because they encourage firms to invest. From this point of view, fiscal rigour can be considered as a route to growth.

SARAH - Yes, politicians used the metaphor of a household budget: the only way to pay off the debt is to reduce spending and make sacrifices.

FORREST - However Sarah, the analogy between the household budget and the sovereign government budget is meaningless!

SARAH - Why would it be? It seems to me it makes sense.

AGATHA - You're right, Forrest: it's misleading, we can't envisage an economic system with the same mind-set that we adopt when we analyse the choices of individuals. Within an economic system, what one person spends is someone else's income. And let's not forget that the monetary authorities control the interest rate and that governments can also regulate the level of taxation. Families don't have all these tools at their disposal.

SARAH - Yes, that's true!

AGATHA - But that's not all.

SARAH - What do you mean?

FORREST - You see, Sarah, if a family has a lot of debt, it's clear that it has to reduce its spending in order to repay the debt. However, when we're talking about the economic system, it's a different

matter.

AGATHA - Exactly. An increase in public expenditure for the acquisition of goods and services may give rise to an increase in the national income, which makes it easier to pay off the public debt.

SARAH - Really?

AGATHA - This link between spending and income is counter-intuitive because it is in stark contrast to our individual experience of managing the family budget.

SLIDE 4 – SUN - NOTHING IS AS IT SEEMS

FORREST - In other words, in macroeconomics nothing is as it seems.

SARAH - Actually, the same thing often happens in Physics: what is true isn't always what we see. We see the Sun change position during the day, not the Earth.

FORREST - All we can see right now here is fog!

AGATHA – I can see this coffee. It is not the best I've ever drunk, but it is what I needed right now!

MAX - *(turns to Sarah and Forrest with a joking tone)* During college Agatha was quite the coffee-dependent. She proudly represented the good ol' Italian with a healthy dose of passion for food.

AGATHA - But I must admit I can't cook.

MAX - This we can overlook, the real problem is that you're a stubborn Keynesian! Saltwater economist.

AGATHA - ... Yes, that's right..., I'm a true saltwater economist, as you call it.

SARAH - I must confess I hadn't heard of that sort of economist.

FORREST - Well, in the States they talk about economists as being freshwater or saltwater.

SARAH - But what does freshwater or saltwater have to do with economics?

FORREST - Freshwater economists are those, like Max, who teach at the universities near the Great Lakes. The most famous of these is the University of Chicago, a stronghold of the neoliberals, on the shores of Lake Michigan. The saltwater economists are those who work mainly at the various universities close to the Atlantic or Pacific coasts, and they belong to the various schools that are shaped, in one way or another, by the theories of John Maynard Keynes.

SARAH - Now I understand.

AGATHA – In any case, sometimes what appears to us to be true is actually the opposite of the truth, just like the case of the Sun going around the Earth. The same thing can happen in macroeconomics. Take the idea of “expansionary austerity”: they play on deceptive personal experience, they are based on a flawed theoretical model, and they match the interests of those who hold power. Success guaranteed!

FORREST - Until someone, such as Galileo, comes along and demonstrates the inconsistency of these theories. And changes the course of events...

MAX - I don't agree with you, it's fundamental that within the South European countries a healthy budgetary discipline be applied that reduces the public debt across a gradual diminishing of the public spending.

SLIDE 5 - FOG OUTSIDE THE AIRPORT

FORREST - Sorry for interrupting you, but take a look outside; the fog's really thick now. Strange, at this time of year.

SARAH - I think that Max is right and that the example of the family makes perfect sense. It's obvious that if you're in debt you have to tighten your belt so you can pay off what you owe.

AGATHA - No, the comparison with a family in debt is misleading, as we said earlier, because it doesn't take into account the link between spending and income, and it does not take into account the impact of fiscal policy on income.

SARAH – Really? What do you mean?

AGATHA – Back to the European example, European governments have underestimated the negative impact of austerity policies on GDP.

MAX - The governments have made the mistake of implementing fiscal consolidation mainly through tax increases, whereas the beneficial type of austerity involves reducing the public debt through cuts in public spending.

AGATHA - Look, Max, your recipe for austerity through a reduction in public spending doesn't hold water, because it involves much wider recessive effects than policies of austerity based on raising taxes.

FORREST - Moreover, all the South European governments have reduced public spending.

AGATHA - In 2012 all the members of the European Union accepted the so-called Fiscal Compact proposed by Germany.

SARAH - What does the Fiscal Compact involve?

AGATHA - It stipulates budgetary equilibrium and a progressive reduction in public debt over twenty years, to achieve the desired ratio of...

FORREST - ...of 60% of GDP!

AGATHA - Achieving a public debt of 60% of GDP in 20 years means facing a deep and prolonged recession.

SARAH - If so, why did they accept the Fiscal compact?

AGATHA - Fear of international speculation on government bonds.

SARAH - Why? Is it dangerous?

MAX - Yes, it's very dangerous for public finance, because it can lead to the unsustainability of the interest rate that countries have to pay to sell their bonds, like I said earlier. We all know that large public debt slows economic growth! There's no alternative to fiscal rigor.

AGATHA - This is what Rogoff and Reinhart said in a study that was considered by many politicians as the "definitive scientific proof". Now we all know that the study was seriously flawed, as the authors themselves later admitted.

SARAH - Really, is that so?

AGATHA - And it doesn't end here, some studies by the IMF have shown that the article by Alesina and Ardagna presenting the intellectual basis of the concept of expansionary austerity contained serious errors.

SARAH - How is that possible?

AGATHA - I will explain how peer-reviewed works later! The point is that slow growth isn't a consequence of public debt, but the opposite: slow growth gives rise to a high public debt-to-GDP ratio. To decrease public debt, we need to stimulate growth.

MAX - It's the crisis, not austerity, that's the cause of the increase in public debt.

AGATHA - Yes, Max, but you won't admit that austerity makes it worse, it increases, instead of reducing, the public debt. This has occurred in all the countries of Southern Europe. And this is due principally to the collapse of GDP. The default risk grows, and you can be sure to say goodbye to financial trust and stability!

FORREST - The case of Greece highlights the failure of the adopted policies of austerity: so many have lost their jobs, yet the public debt is still rising.

AGATHA - Contrary to what some think, it's clear that austerity is not expansive. The policies of austerity create a vicious circle: they become a noose around the neck that inhibits economic growth and thus prevents the government from paying the debt. Austerity is purely and simply masochistic.

FORREST - Furthermore, austerity has furthered inequalities in the distribution of income.

AGATHA - Truthfully, the rise of inequalities started long before the policies of austerity.

FORREST – Sure, but the policies of austerity have reduced the standard of living, security and individual opportunities. The process of growing inequality seems to me to be near the point of collapsing.

AGATHA – Inequality is harming our democracy.

SARAH - How much more can income inequalities increase without the destabilization of societies?

MAX - Frankly, to me all this interest in the distribution of income seems to be exaggerated!

FORREST - I had no doubt.

AGATHA - Can I tell you something, Max? At times you astound me! Yes, you, the young radical I once knew...

MAX - What can I say! Moving to the United States opened my eyes. Being able to change your mind is sign of intelligence.

AGATHA - Come on Max, don't be upset!

MAX - You know what? I'm going to head over the duty-free section. - I'll see you later...

SLIDE 6: DUTY FREE

AGATHA - Don't take any notice of him. I've been used to his sudden outbursts since the days we

were at university together. They blow over rapidly...

FORREST - I've assisted a few of his political debates... there he was very aggressive, to the point of being rude.

SARAH - How come?

AGATHA - His attitude is not uncommon among some economists. In fact, there are lots of recent debates on why Economics is such as hostile discipline...

SARAH - In what way?

MAX - I just saw an announcement on the screen down there: we should be leaving soon!

SARAH – What a day to flight!

MAX – I bet it's the Euro's fault! (laughing)

SLIDE 7 – AIRPORT - STARS

FORREST - Look outside. It looks like the fog is clearing; the wind has picked up a bit.... The boarding gate has just been opened. We need to go!

SARAH - Yes, we need to hurry as well. I really hope that there will be another chance to continue this discussion. I've understood many things that up until today weren't clear to me.

AGATHA - I'm happy that our discussion was useful... Oh, I can't find my ticket! ... - Ah, here it is. Let's see where I'm sitting... 27B.

MAX - (*pleasantly surprised*) You're kidding me, we're sitting next to each other. (*Pleading and ironic at the same time*) But please, I beg you, enough of economics...