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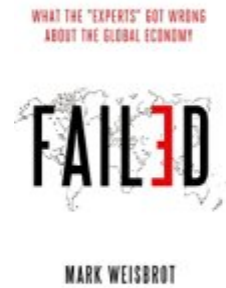
Mark Weisbrot. *Failed: What the "Experts" Got Wrong about the Global Economy.* Oxford: Oxford University Press, 2015. 312 pp. $24.95, cloth, ISBN 978-0-19-517018-4.



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Every year since the start of the global financial crisis in 2008, the International Monetary Fund (IMF), the Bank for International Settlements (BIS), the US Federal Reserve Bank (Fed), the European Central Bank (ECB), and the central banks for most other rich countries have published predictions for economic growth, inflation, and unemployment in the coming years. They have a perfect record of significantly overestimating growth and inflation and underestimating unemployment.[1]

The future is fundamentally unknowable, so perhaps it is unfair to criticize these organizations for getting it wrong. If their errors were randomly distributed around the actual outcomes, and if these organizations had the same robust procedures for rooting out error that, for example, the transportation authorities have in place for diagnosing and preventing airplane crashes, then it would be patently unfair to be critical. But neither condition holds, even though the consequences when these institutions get things wrong affect tens of millions of peoples' livelihoods. Both before and after the global financial crisis, these institutions consistently erred in the direction that favored their policy recommendations. And with one exception—to be discussed later, as it proves the rule—none of these institutions has engaged in any Bayesian updating of their models. The inability to make accurate predictions (or predictions whose direction of error tends to cancel out) strongly suggests that the underlying models these institutions use are wrong. Yet they continue to use them. And that in turn suggests that it is their policy preferences that drive their model choice and predictions, just as Philip Tetlock finds for the equally unreliable policy "experts" in his 2005 book ***Expert Political Judgment: How Good Is It? How Can We Know?*** Put simply, these institutions pick a model of how the world works that justifies picking the policies they prefer, rather than a model of the world that accurately predicts policy outcomes.

Mark Weisbrot's ***Failed: What the "Experts" Got Wrong about the Global Economy*** addresses the existence and consequences of this systematic dual failure. He charts the policy advice dispensed by a number of Very Serious Institutions (VSI—if I may modify Paul Krugman's expression, Very Serious People, who are invariably wrong and unapologetic about it). The book devotes most of its time to the IMF over the past four decades, to the aftermath of financial crises in Latin America over the same period with particular attention paid to the past twenty years, and to the Eurozone crisis of the past near decade. It complements these more general discussions with some detailed portraits of the IMF as an institution, several "Pink Tide" Latin American countries in the 2000s, and, above all, Argentina. The Pink Tide was the wave of Social Democratic governments elected after 1999, in reaction to the failure of the neoliberal, Washington consensus policies of the 1990s.

Put as simply as possible, the book makes a counterfactual argument. Economic policy advice from VSIs like the ECB and IMF has invariably made outcomes worse in crisis countries. This policy advice invariably demands deflation, calling for less government spending, wage cuts, and devaluations. Unsurprisingly, contractionary policy is contractionary. But the goal here is not growth, as such, but rather assuring that creditor claims can be honored. To the extent that these policies "work," they work by drastically reducing imports and claims on government revenue in order to free up revenues and foreign exchange to service internal and especially external debt. But they do so by driving down growth in both the debtor country and, something less often recognized, the creditor country. These policies work by creating export surpluses for debtors, which means import surpluses and thus lower Gross Domestic Product (GDP) growth in creditor countries. (By definition, GDP equals consumption [C] plus non-transfer government spending [G] plus investment [I] plus net exports [X-M]. So a trade deficit is growth reducing, as it subtracts from GDP.)

The explicit counterfactual here is that an expansionary solution to financial crises also exists. In this solution both creditor and debtor would work together to mutually expand their economies. By providing bridging finance and boosting their own economy, creditors could both absorb extra imports (i.e., debtor exports) and thus provide debtors with the income they need to service their debts. This was the solution John Maynard Keynes advocated at the 1944 Bretton Woods conference. Keynes's version of the IMF would have issued international money to deficit countries, enabling them to continue imports of capital goods and forcing creditors to recycle that international money as imports from deficit countries. Keynes unfortunately lost that debate. The less expansionary American policy preference put forward by Harry Dexter White prevailed, and eventually hardened into the contractionary policy stance of the IMF.

The core of Weisbrot's book is a qualitative and quantitative contrast of these two approaches. The deflationary neoliberal policies imposed and accepted after the 1980s Latin American debt crises led to two decades of slow growth in Latin America. By contrast, the closed economy, import substitution industrialization period of 1940 to 1980, and the more Keynesian policies of 2000 to 2014 had significantly higher growth rates and significantly better poverty and income equality outcomes. The same is true for Europe's troubled "south" before and after the Eurozone financial crises. The Troika of the ECB, IMF, and EU have tried to use the euro crisis to force a rollback of southern welfare states, much as the IMF forced market opening and welfare cuts in Latin America and Asia. Though Weisbrot paints altogether too rosy a picture of governments and elites in Argentina, Venezuela, and Greece, it is not obvious that creditors have the moral right to dictate their policy preferences to democracies. This is particularly true for institutions like the ECB, whose single-minded concern appears to be keeping inflation below the arbitrary level of 2 percent per year, regardless of the implications for growth and employment. Equally so, the book understates the degree to which Argentina is a model of the processes the book condemns. Argentina was ***the*** poster child for neoliberal reform in the 1990s, until, as with post-1997 Southeast Asia, crisis turned cheerleaders into critics. VSIs wrongly argued that it was the Argentines who had failed neoliberal policies and not the policies that failed the Argentines; just as these VSIs argued that it was Southeast Asian economies' inability to deal with massive inflows and then outflows of speculative capital that caused their crash, not the fault of the lenders.

That said, the book does make a few questionable arguments. Most prominent among these is to dismiss the positive effects of Chinese demand on Latin American resource exporters in favor of crediting the Pink Tide shift away from neoliberal policies. Granted, Chinese demand for Latin American exports was partially offset by Chinese exports of manufactured goods to Latin America. But most Latin American countries were net exporters to China. Over the rough decade in which the Pink government of Luiz Lula da Silva expanded the social safety net, Brazil ran a cumulative trade surplus with China of sixteen billion dollars, roughly equal to the cumulative expansion of spending on the poor via the successful poverty reduction program, *Bolsa Familia*.

More to the point, the increase in Chinese demand for commodities like iron ore, soybeans, and meat—all major Brazilian exports—over the period was equal to or exceeded the increase in Brazilian exports of those goods. Though Brazil was not the sole supplier for China, Chinese demand pushed global commodity prices to new highs. It is hard to imagine that Brazil would have had the same robust growth in the 2000s in the absence of China, which takes one-fifth of Brazil's exports. As China's economy faltered after 2013, so too did Brazil's, much to the dismay of Dilma Rousseff's equally Pink government.

I cover much of this same terrain in many of my classes, and my students often ask the same question about elites and the various international financial institutions: are they crazy or are they stupid? To which I generally reply: neither. They are not stupid; they know precisely what they are doing. But they are also not crazy. Rather, *akrasia*. *Akrasia* is the ancient Greek word that means to lack self-control and act against one's own interests. Every global financial crisis started with a panic by lenders that drive merely illiquid debtors into insolvency, thus harming lenders as well as borrowers. Every global episode of mass default—including those by nine US states in the early 1840s—has resulted in creditors implicitly or explicitly writing down debt, or seizing lower yielding collateral as compensation for the loss of higher yielding financial claims. Creditors have tended to do better in recovering money in the past forty years, but that is largely due to the ability of the Fed and IMF to impose collective discipline on creditors postcrisis. Precrisis, of course, neither the Fed nor the IMF seems to have any interest in disciplining creditors' desires to lend far too much money and drive bubbles in borrowers' economies. As Weisbrot's Center for Economic Policy Research colleague Dean Baker never tires of pointing out, the experts at the Fed famously managed to miss the emergence of the eight trillion dollar US housing bubble.[2] Equally so, the IMF was energetically promoting capital market liberalization just before unconstrained capital flows brought on the 1997 Asian Financial Crisis.

Intellectual maturity requires the ability to recognize one's mistakes and adjust one's model of the world in response to consistently failed predictions. Are the VSIs Weisbrot studies capable of change? He thinks not, and I agree. The one major change in policy recommendations that has occurred is the one noted above as the exception that proves the rule. Here the rule is that the VSIs' preferences for specific policy outcomes and the financial and geopolitical interests behind those VSIs drive their choice of model. After the global financial crisis the IMF changed its tune on capital controls, and during the Eurozone crisis it cautiously advocated expansionary policy rather than its traditional deflationary package. Why? Not a sudden Damascene conversion. Rather, every developing country capable of running an export surplus after the 1997 Asian Financial Crisis did so, and parked those surpluses in US Treasury notes in order to be able to defend themselves from currency speculation. This threatened the IMF's institutional mission, particularly as Asian political leaders were furious with the IMF's flawed and damaging response to the 1997 crises. The IMF thus had to find some way to restore its prestige and bargaining power. Similarly, the IMF's softer line on austerity in the Eurozone crisis reflected American concerns that the ECB's hard line on bailing out southern governments would provoke an even greater crisis, and damage the US economy as well. Institutional policy preferences drove policy advice and the selection of a model of the world to justify that advice.

Weisbrot's *Failed* is a comprehensive *March of Folly* cataloging the intellectual and policy failures of a set of extremely powerful institutions. Yet it is also written at a level accessible to any undergraduate with a basic economics background. I recommend it to those looking for a follow-up to the classic reporting on the 1997 Asian Financial Crisis and Argentine default found in Paul Blustein's classic books *The Chastening: Inside the Crisis That Rocked the Global Financial System and Humbled the IMF* (2003) and *And the Money Kept Rolling In (and Out): Wall Street, the IMF, and the Bankrupting of Argentina* (2006).

Notes

[1]. Some examples can be found at https://www.whitehouse.gov/sites/whitehouse.gov/files/images/slide3.jpg; http://bruegel.org/wp-content/uploads/2015/10/GW_21_10_15_3.png; and http://economistsview.typepad.com/.a/6a00d83451b33869e201b8d183847e970c-500wi.

[2]. Fed Board of Governors member Edward Gramlich was a notable, yet ultimately ignored, exception. See Edward Gramlich, *Subprime Mortgages: America's Latest Boom and Bust* (Washington, DC: Urban Institute, 2007).

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