

Gattopardo economics: The crisis and  
the mainstream response of change that  
keeps things the same

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# The structural Keynesian account of the crisis

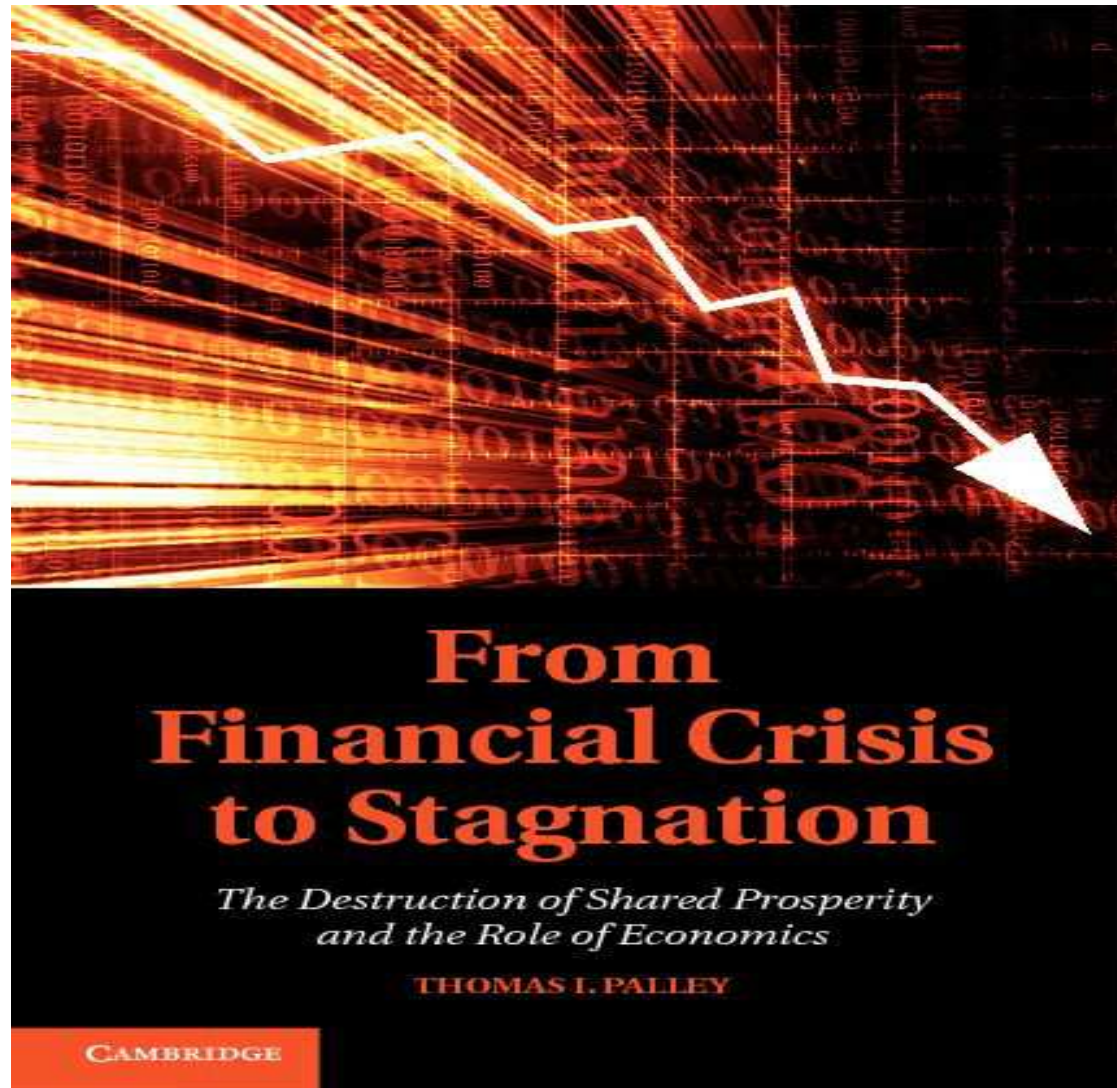


Figure 1. The 1945 – 75 virtuous circle Keynesian growth model.

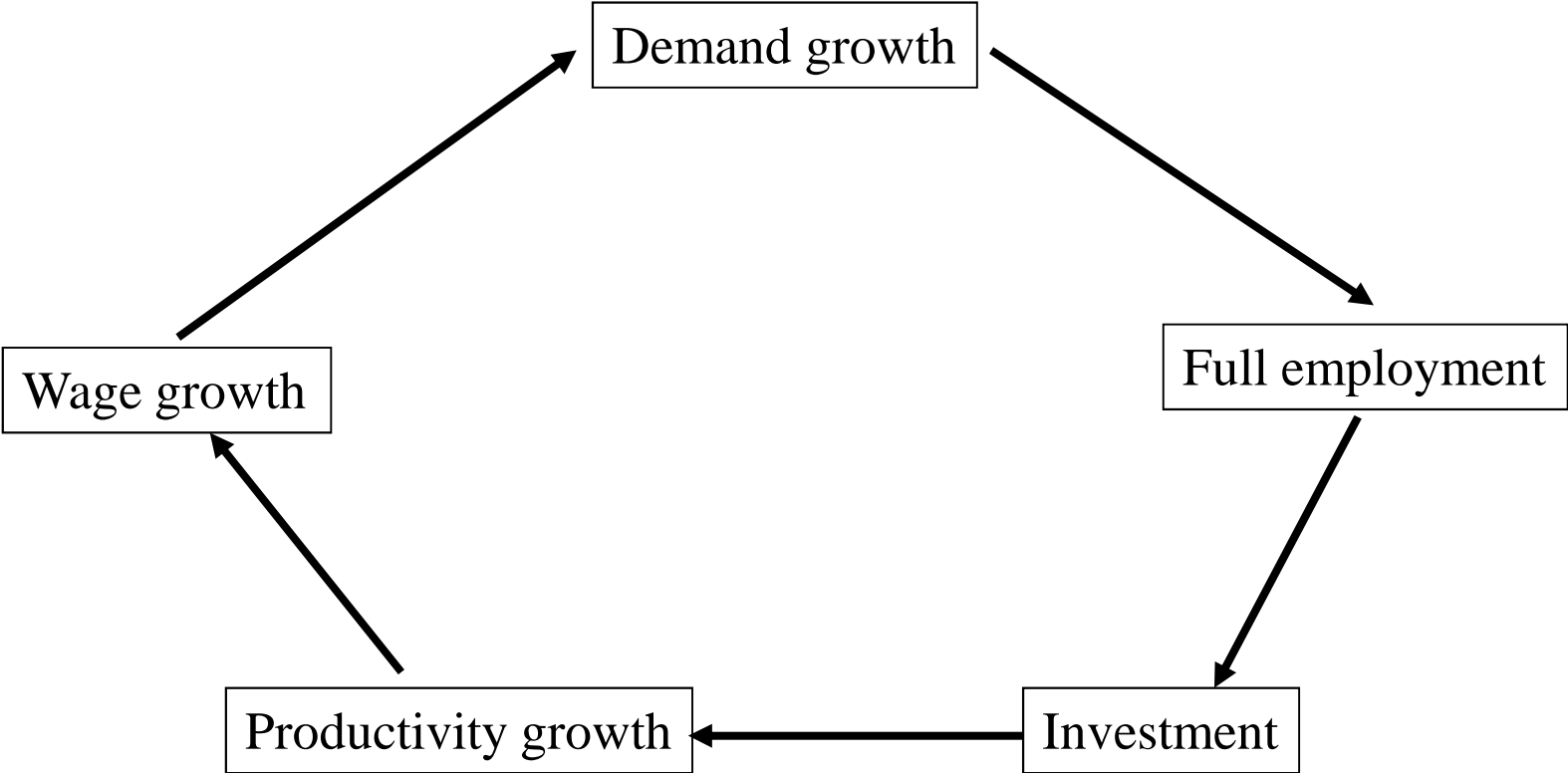
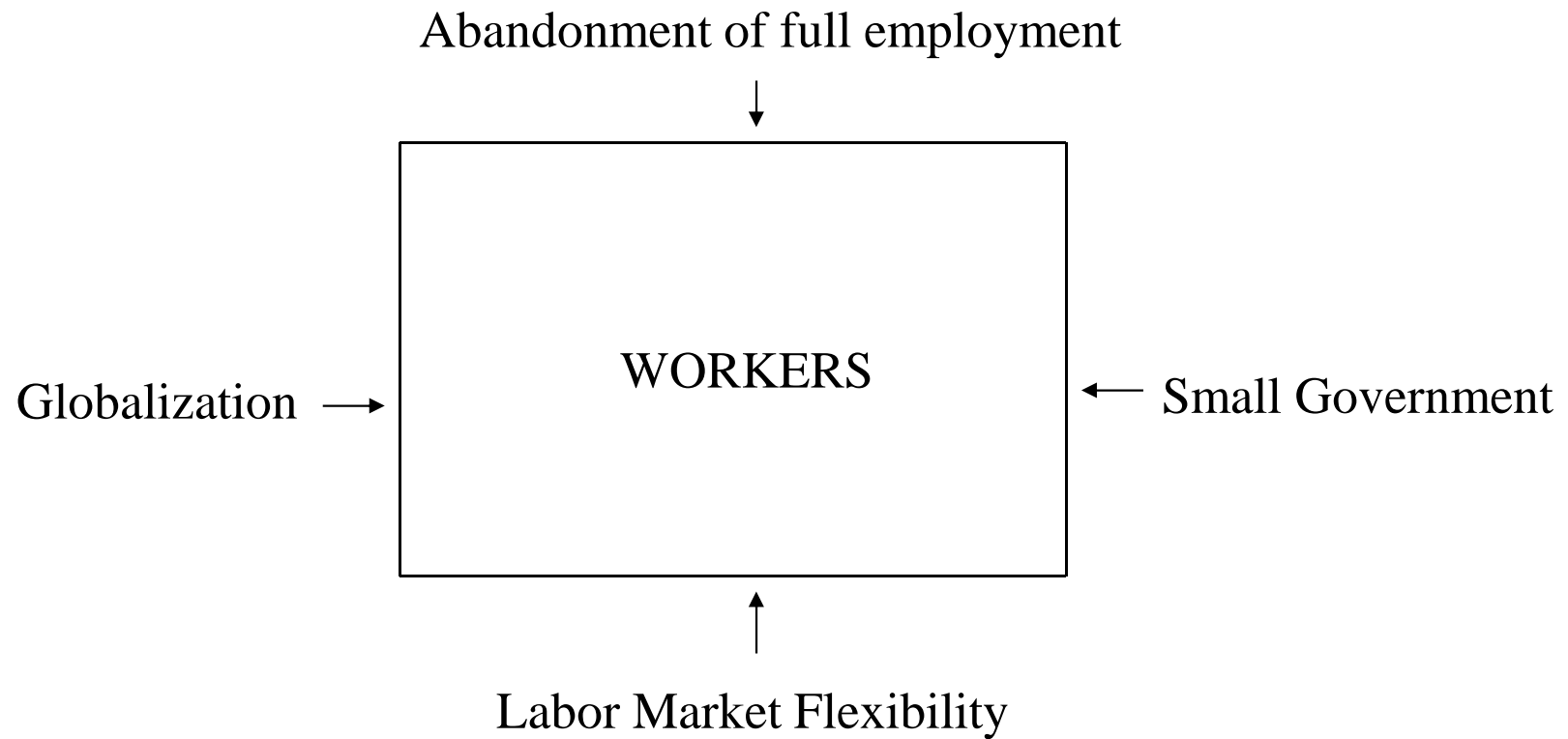


Figure 2. The Neoliberal Policy Box



# The role of finance

# The role of the U.S. trade deficit & global financial imbalances

Table 1. The U.S. goods & services trade deficit by business cycle peaks, 1960 – 2007.

Sources: Economic Report of the President, 2009 and author's calculations.

<b>Peak year</b>	<b>Trade deficit (\$ millions)</b>	<b>GDP (\$ billions)</b>	<b>Trade deficit/ GDP (%)</b>
<b>1960</b>	3,508	526.4	0.7
<b>1969</b>	91	984.6	0.0
<b>1973</b>	1,900	1,382.7	0.1
<b>1980</b>	-25,500	2,789.5	-0.9
<b>1981</b>	-28,023	3,128.4	-0.9
<b>1990</b>	-111,037	5,803.1	-1.9
<b>2001</b>	-429,519	10,128.0	-4.2
<b>2007</b>	-819,373	13,807.5	-5.9

The role of income distribution & why  
we now face stagnation



# Gattopardo economics & income distribution

Raghuram Rajan (2010):  
*“Fault Lines: How Hidden Fractures  
Still Threaten the World Economy”*.

- (1) Skill biased technical change.
- (2) Inequality → Political discontent → government intervention.
- (3) Labor markets functioning fine.
- (4) Inequality no implications for AD & AD not the cause of the crisis.
- (5) Crisis due to financial market failure.
- (6) Cannot explain stagnation.

# Kumhof and Ranciere (IMF)

## *“Inequality, leverage and crises”*

- (1) DSGE model
- (2) Wages determined by bargaining
- (3) Workers borrow to maintain living standards.
- (4) Crisis because of stupid lending.
- (5) AD has no role & income distribution has no effect on AD
- (6) Cannot plausibly explain stagnation.

# Gattopardo economics and the global imbalances

The saving glut hypothesis

“I will argue that over the past decade a combination of diverse forces has created a significant increase in the global supply of saving – a saving glut – which helps explain both the increase in the U.S. current account deficit and the relatively low level of long-term real interest rates in the world today.”

*Governor Ben S. Bernanke, the Sandridge Lecture, Virginia Association of Economics, Richmond, Virginia, March 10, 2005.*

# Critique of saving glut hypothesis

- (1) Macroeconomic nonsense = loanable funds theory
- (2) Microeconomic nonsense = does not fit the facts.
- (3) Brilliant gattopardo economics
- = captures Keynesian language, pretends to be about demand shortage; nothing to do with demand shortage.
- = Protects globalization from its critics by masquerading as Keynesian critique.

Table 2. Decomposition by firm ownership structure of Chinese exports and imports in 2005.

Source: Manova and Zhang, 2008

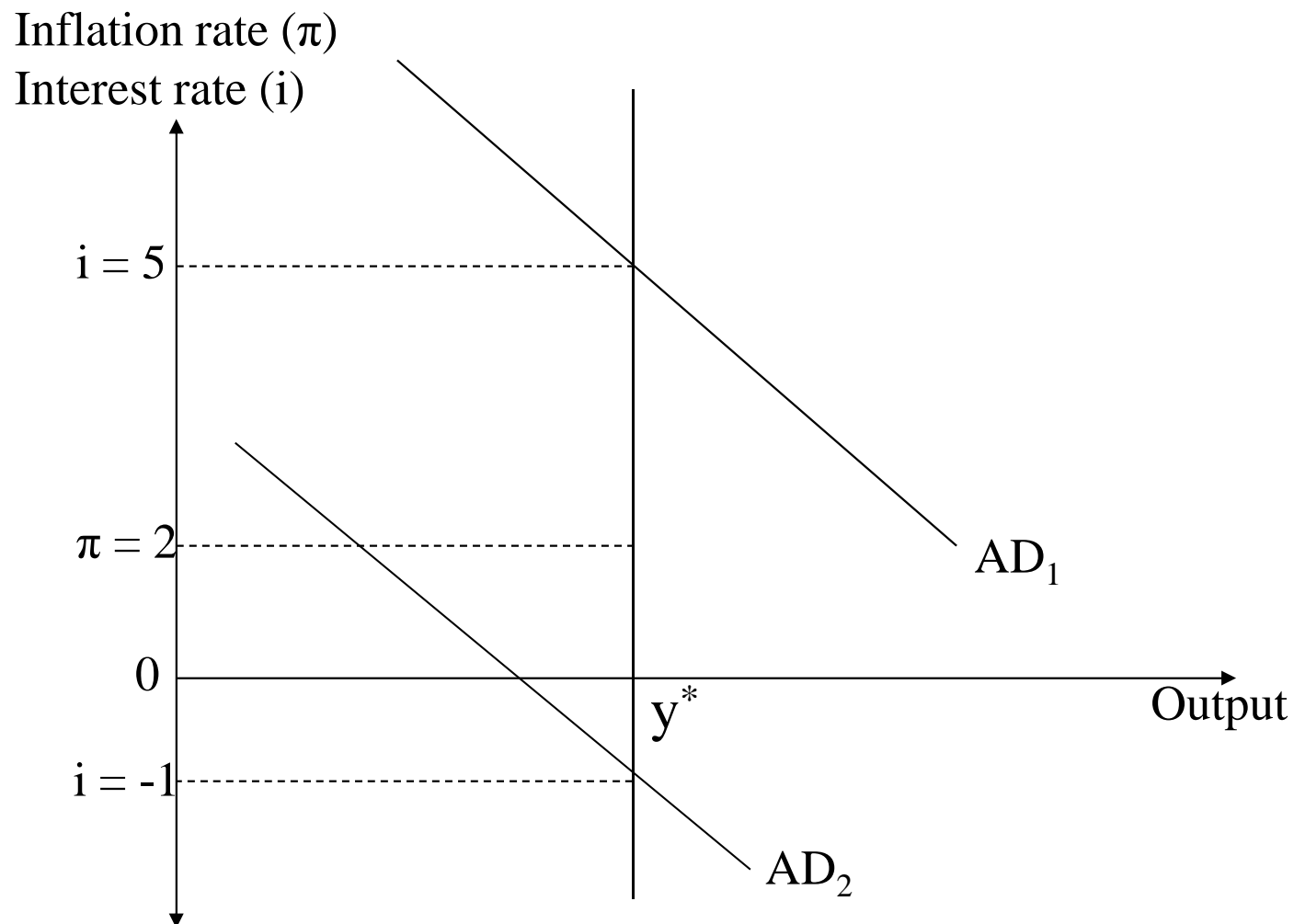
	<b>All firms</b>	<b>Foreign-owned</b>	<b>Joint ventures</b>	<b>Private domestic</b>	<b>State-owned</b>
<b>Exports</b>	100%	50.4%	26.3%	13.1%	10.3%

# Gattopardo economics and inflation

- Blanchard 4% inflation target proposal.
- (1) Logic implausible.
- (2) Maintains natural rate theory → which justifies labor market flexibility agenda.
- (3) Occupies Keynesian policy space.



Figure 3. The zero lower bound argument for a higher inflation target ( $AD_1 > AD_2$ ).



# Gattopardo economics and endogenous money

# Gattopardo economics and the role of central banks

Government banker vs. Lender of last resort

# Gattopardo economics and the sociology of citation

Conclusion: why exposing gattopardo  
economics matters



# From Financial Crisis to Stagnation

*The Destruction of Shared Prosperity and the Role of Economics*

THOMAS I. PALLEY

CAMBRIDGE



THOMAS I. PALLEY

# FINANCIALIZATION

the economics of finance capital domination

# Restoring Shared Prosperity

*A Policy Agenda from Leading Keynesian Economists*

edited by

Thomas I. Palley and Gustav A. Horn



# The Economic Crisis

*Notes from the Underground*

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