



The ups and downs of a liberal consciousness, or, why Paul Krugman should learn to tarry with the negative

Martijn Konings

The New Keynesianism

The period of economic malaise that was ushered in by the subprime credit crash of 2007 will go into history as the most serious crisis of global capitalism since the Crash of 1929 and the Great Depression of the 1930s. Even if the crisis has bottomed out (which, at the time of writing, is far from clear), it has already fundamentally changed the contours of American and global capitalism. Moreover, it will continue to wreak havoc on the lives of people across the globe long after the pundits declare the world economy to have emerged from its prolonged period of stagnation. They have lost houses, jobs and pension savings; they have seen their economic opportunities decimated and their children's prospects curtailed to levels unknown in the post war era of welfare capitalism.

It took some time for the full dimensions of the Global Financial Crisis to become apparent. Once they did, comparisons with the Great Depression quickly became commonplace. Indeed, the experience of early 20th century capitalism has emerged as a key point of reference in public debate, serving not only as a source of causal analogies but equally as a mirror in which to examine and diagnose the moral and social warts of our age. But if public debate quickly went beyond the technicalities of financial markets to encompass the social, political and moral aspects of what had gone wrong, the dominant assessments of our society's subprime predicament have remained rather superficial.

At the heart of these discourses is the notion that an era of political irresponsibility has come to an end: the crisis is widely viewed as representing the breakdown of an economic model characterized by the abdication of public control over financial life – i.e. the regulatory indifference that allowed brokers to foist expensive mortgages on underprivileged Americans and investment managers to recklessly pour massive amounts of “other people's money” into markets for lemons. We are all Keynesians

again, aware of the need for government to regulate the unruly dynamics of free markets – so is the message. After three decades in which the mantra of “less state, more market” reigned supreme, advocating for the public regulation of economic activities has become respectable again.

The shallowness of these discourses should have been apparent from the very ease with which an ideological climate shaped so profoundly by decades of neoliberal hegemony gave way to a new common sense concerning the benefits of prudent regulation. Almost overnight, heterodox economists like Paul Krugman and Joseph Stiglitz, who for years had been portrayed as brilliant theoreticians that should be kept (or kicked, if need be) out of the real-world business of policymaking, sounded quite mainstream in their concerns about deregulation and their calls for re-regulation.

The past years have seen a veritable torrent of publications dealing with the causes, consequences and significance of the credit crunch. For all their differences, these contributions have converged around a common theme: the lack of regulation and the resulting acceleration of irresponsible speculation. Scholarly books tend to argue that lax and misguided policies allowed financial innovation to proceed unchecked (Immergluck, 2009; Gamble, 2009), while the more anecdotal literature details the ways in which the unscrupulous lenders and traders that were thus given free rein exploited this lack of regulatory oversight (Bitner, 2008; Muolo and Padilla, 2010). But neither branch of literature has offered readers much beyond the kind of information that can be gleaned from the headlines of newspapers, magazines and talk shows: ineffective regulation, out-of-control markets and greedy bankers.

Such events and personalities are no doubt important, but only as part of a much much broader story of socio-economic change – a story that can only be uncovered if we are willing to break with this emerging consensus. The stakes here are not merely intellectual but equally political. The Keynesian understanding of the crisis suggests a communal interest in re-regulation that is hardly reflective of prevailing levels of inequality. Owing to the ease with which it can be invoked in calls to refrain from pointing fingers (at least once the “bad apples” have been dealt with), this apparently progressive discourse has become complicit in the legitimation of some of the most inegalitarian uses to which state power has ever been put. After all, public rescue efforts have overwhelmingly benefited those who already did very well for themselves during the preceding years of frantic financial growth, while the process whereby those benefits are supposed to trickle down to the rest of society remains fraught with uncertainty.

Wilful Optimism and its Discontents

When Gramsci counselled “optimism of the will”, it was to suggest that there is political value in sustaining our faith in people’s capacities to resist power and transform their world even when such sentiments fly in the face of how we see people relating to authority in our particular historical conjuncture. He did not mean to advocate what we should perhaps term “wilful optimism”, an idealist faith in the self-representations of authority or a blithe disregard for the obstacles in the way of our

political strategies. Indeed, Gramsci was acutely aware that the failure to question the ideological appearances of hegemonic power could only have dire political consequences.

The distinction between optimism of the will and wilful optimism permits us some conceptual grip on the role that progressive intellectuals have played since the onset of the financial crisis and in particular since the American presidential election of 2008. Of course, the distinction between these two different modes of political engagement is hardly watertight: subordinate actors' capacities for transformative political agency are deeply intertwined with the cracks in the edifice of hegemonic power. Yet the existence of such blurry boundaries only raises the stakes of sound political judgement and the need for contextualized reflections on where the one ends and the other begins.

In the introduction to the paperback edition of *The Conscience of a Liberal*, published in early 2009, Paul Krugman triumphantly declared: "Right now the prospects for a dramatic progressive turn in American policy, for a bold reassertion of liberal values, are even better than I thought they'd be when the hardcover edition went to the printers [in 2007]. The new New Deal starts now" (Krugman, 2009a: xix). This announcement of a "new New Deal" reflected a wider trend among progressive and liberal commentators to view the onset of the crisis and the election of Obama as an epochal turning point that would set America – and, by extension, the world – on a path towards a more civilized form of capitalism.

But Krugman's subsequent commentary on the Obama administration's management of the crisis has been rather less optimistic. In March 2009, after two months of hope, he realized that "top officials in the Obama administration ... still believe in the magic of the financial marketplace" (Krugman, 2009b). Several months later, he noted that "the Obama administration... still seems to operate on the principle that what's good for Wall Street is good for America" (Krugman, 2009c). The way Krugman phrased his lamentations – that the new administration was "still" beholden to outdated, neoliberal ideas – suggested that his hope had turned into impatient frustration rather than resigned disappointment. For he still believed that, beneath the event-driven spheres of policymaking and political compromise, forces were at work to push the actors and institutions of political life away from a neoliberal agenda.

Yet his belief that a more benevolent public interest would ultimately assert itself sat rather uneasy with the systematic bias towards Wall Street interests that Washington's policies displayed. As the Obama administration failed to deliver on the promises that Krugman had made on its behalf, the pessimistic realism of his more recent columns began to contrast starkly with his earlier optimism. Special interests and vile conspiracies, rather than good intentions and civilized debates on America's future, came to occupy centre stage: "Actually turning this country around is going to take years of siege warfare against deeply entrenched interests, defending a deeply dysfunctional political system" (Krugman, 2009d).

Such statements were not intended to convince progressively minded reformers of the futility of their efforts: "I'm not saying that reformers should give up. They do, however, have to realize what they're up against" (Krugman, 2009d). Yet the fact that

they came from someone who had only recently expressed boundless optimism about the future direction of public policy may well mean that their practical effects will be to induce precisely such political cynicism. That is, rather than contributing to a sober assessment of the political landscape and the strategic opportunities available, Krugman's warnings may well serve to induce political passivity and pessimism of the will. Cynicism, after all, is only defeated idealism, incapable of boosting its spirits yet again after one too many frustrating experience.

Krugman's own declaration of a new New Deal had evinced and promoted precisely the wilful reluctance to figure out what exactly progressive forces were up against – after all, the idea for a “new New Deal” was not even something that Obama had even campaigned on! – that he now argued could undermine reformers' efforts. Of course, Krugman's initial optimism had not just been intellectual but political – motivated by the hope that the projection of a communal belief in the need for progressive change would propel such ideas into the centre of the public sphere and dispose the new powers to take more kindly to such proposals. But what Krugman now highlighted was quite the opposite: such statements of harmonious unity, by distracting attention from the obstacles that progressive forces face, set us up for largely ineffective reform strategies.

These are hardly abstract considerations. To a significant extent, it was the huge degree of unquestioning faith in and legitimacy bestowed on Obama that created the political space within which an administration could be formed that included some of the most prominent representatives of established Wall Street interests. Krugman's statements fed a wider discourse of wilful optimism that served to attenuate the popular pressure on the Obama administration at a time when such pressure could have served to make him less responsive to the demands of elite interests. For instance, the appointment of Larry Summers and Tim Geithner to key positions in the new administration was hardly a foregone conclusion. Had progressives been less concerned with projecting illusions of community and bestowing approval on the incoming President's hoped-for Keynesian policy agenda, and had they been more willing to dwell on the profound popular discontent that the crisis had awakened, they could have influenced the political climate in a way that might have made Obama think twice about putting such stalwarts of Wall Street interests at the centre of political power. And since few progressive intellectuals have the kind of public platform that Krugman does, we might say that he has played a non-negligible role in engendering his own discontent.

But it is far from clear that his newfound pessimism represents a major step in the right direction. What Krugman fails to realize, in his attempt to work out whether the impact of his position as a prominent public intellectual is best optimized through messages of salvation or warnings of danger, is that cynical realism and idealist optimism are merely different sides of the same political process – a process whereby we evade productive engagement with the sources of our oppression, lose our hopes for transformative interventions and become more vulnerable to the integrative capacities of hegemonic power. Cynicism, no less than uncritical belief, is a major source of political disempowerment, as it expresses and solidifies a belief in our own helplessness. While Krugman himself is hardly in danger of falling prey to the kind of political cynicism that would have him tune in to Fox News, the same cannot be said of many people whose primary source of anger is not moral indignation but personal injury – the stuff

of much more visceral sentiments that connect much more easily to daily expressions of intense hatred towards all things political.

Tarrying with the Negative

As Naomi Klein (2007) has forcefully reminded us, the effects of a crisis are by no means necessarily progressive. The impact of shock and trauma tends to be highly uneven, often further debilitating the political capacities of already marginalized actors while opening up new opportunities for elites. It is especially important to remember this when analyzing the particular brand of socio-economic life that has been constructed in the US over the course of the 20th century and has gone global over the past decades: its highly financialized nature means that participation in relations of credit and debt has come to be seen as the royal road to personal autonomy, and this in turn means that the maintenance or restoration of these relations comes to appear as an indisputable necessity.

This logic was already evident in the aftermath of the dot-com crash at the start of the 21st century. When companies like Enron and WorldCom were revealed to have engaged in elaborate fraud schemes, the public outcry in the US was enormous. Yet the resulting legislation (the Sarbanes-Oxley Act) did little more than provide the American public with a minimal degree of protection from the most flagrant abuses of corporate privilege, while reinvigorating the ability of financial elites to tap into new sources of profit and accumulation. What connected in much more primal ways with the anger of the American people was the public beheading of several “bad apples”. If none of this did much to help those people who had seen their pensions evaporate, it was highly effective in dissipating the flurry of popular anger, thereby opening the door to a new episode of frantic financial expansion. Indeed, while the gap between rich and poor had been widening for decades, the astronomic fees that financiers were able to reap from private equity funds and securitization (which came on top of steadily growing basic compensation packages, the sum of which was taxed at lower rates than before) meant that inequality accelerated like never before.

The vilification of financiers since the onset of the Great Credit Crash has been swift and merciless, at times reminiscent of the days when ordinary people mistrusted banks and credit. Such sentiments were greatly intensified by the use of massive public funds for bailing out the very financial institutions whose irresponsible behaviour had produced the crisis. But for all the widespread popular resentment these bailouts provoked, they have throughout been able to count on an appearance of dire necessity: the fortunes of ordinary Americans, so intricately bound up with a functioning financial infrastructure, were effectively held hostage by the bankers. In the absence of meaningful choice when it came to the political course of action, intense feelings of hostility have found their way into a highly moralistic discourse in which bloated bankers, once again wearing monocles and top hats, feature as villains. For all their apparent unpleasantness, the prospect of redemption is central to such morality plays: their message is invariably that Wall Street can expect to be bailed out if it promises to change its errant ways and ensure that henceforth financial intermediation will once again operate in the service of the public interest at large.

It is here – i.e. in the idealist belief in the possibility of using prevailing structures of political authority and regulation to effect reforms that will make the financial system more responsive to the public interest – that such incendiary populist narratives intersect with the Keynesian interpretation of the crisis that has been so widely espoused by progressive scholars and commentators. The notion that once upon a time finance operated in the public interest has in the past often been a useful myth, allowing critics of capitalism to argue from a position that enjoys some degree of socially recognized validity and enabling the Left to command a higher price for the renewal of its allegiance to capitalist order. But at a time when our daily lives and personal ambitions have become so profoundly dependent on credit relations and their management by financial elites, it has become harder than ever for such ideologies of progressive reform to exact significant material concessions. Under such circumstances, to insist on the advent of a new era of Keynesian intervention and regulatory prudence means to allow intellectual capital to become instrumental in channelling popular anger into the highly manageable format of morality plays and the empty threats they pose.

A major factor luring progressive intellectuals into the game of making policy proposals is the tyranny of “what is your alternative?” – that is, the notion that public intellectuals only behave responsibly if they do not only offer criticism but also put forward alternative policy proposals. However, in situations where we find ourselves at many removes from the levers of public authority, to prescribe policy alternatives is bound to be either presumptuous and pointless (because the political actors that we would like to carry our programs are nowhere to be found) or conservative in its political implications (because after many radical calls in the desert we learn to ratchet our ambitions down to a level where they can easily be taken up by existing agencies). Once we buy into the game of making policy proposals we can only sound ridiculous and irrelevant or end up participating in the legitimation of prevailing relations of power. We may be able to find a trade-off between these two extremes, but we will have structurally hobbled our capacity for the production of critical knowledge.

The temptation of the policy debate – i.e. the reluctance to recognize “what is your alternative?” as a rhetorical question – is perhaps yet another instance of the Left’s idealism, motivated as it is by a fear of the political cynicism that might ensue once we start questioning people’s professed interests. But this is based on a dramatic misunderstanding of the psychological and cultural mechanisms that produce political cynicism and apathy. The latter arise not from a willingness to question the official attributes of power but precisely from the tendency to validate hegemonic discourses *even at times when their disconnect from the world is particularly visible*; not from the awareness of oppression but from progressive leaders’ insistence that we sit still and hold on tight while hegemonic power works its way towards a new benevolence.

Throughout the crisis, public intervention has been so flagrantly slanted in favour of the very actors and practices that had dominated the neoliberal era that progressive commentators’ willingness to read into this an actual departure from the power structures of the neoliberal era is often nothing short of belief-begging. At a time when massive public assistance for the world’s wealthiest people is legitimated through appeals to the common good, we should not be too quick to celebrate the return of Keynesianism or too eager to participate in the construction of a new consensus

regarding the potential virtues of government. While it is crucial that we develop political responses based on a clear perspective on the meaning of the crisis, we should not be too eager to seize on every dim prospect for progressive change promised by states and elites presiding over a capitalist system in disarray.

All too often, progressive commentators and intellectuals allow their political commitments to be shaped by wilful optimism, by appraisals of power that take their cues from its rationalizations and self-representations. And all too often this has played an important role in temping progressive political projects into assuming responsibility for the restoration of capitalist order, thereby undermining their transformative capacities in the process. For the time being, the most productive role that progressive intellectuals can play is to “tarry with the negative” (to use Žižek’s (1993) appropriation of Hegel’s famous phrase) i.e. to trace and publicize the inconsistencies between prevailing practices of power and their idealized representation in the official institutions, narratives and symbols of our polity.

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the author

Martijn Konings is a lecturer in the Department of Political Economy at the University of Sydney. He has co-edited (with Leo Panitch) *American Empire and the Political Economy of Global Finance* (Palgrave, 2009), edited *The Great Credit Crash* (Verso, 2010) and has published articles in journals such as *Review of International Studies*, *Review of International Political Economy*, *New Left Review*, *Archives Européennes de Sociologie*.
E-mail: martijn.konings@sydney.edu.au