Review of *The Leaderless Economy: Why The World Economic System Fell Apart And How To Fix It.* By Peter Temin and David Vines. Princeton University Press. 315 pp. $29.95

Whenever he argued with John Maynard Keynes, the philosopher Bertrand Russell recalled, "I felt I took my life in my hands and I seldom emerged without feeling something of a fool."

These days, of course, plenty of politicians and economists argue with Keynes. According to Peter Temin and David Vines, they ought to feel like fools. In *The Leaderless Economy,* Temin (a Professor Emeritus of Economics at the Massachusetts Institute of Technology) and Vines (a Professor of Economics at Balliol College, University of Oxford) demonstrate that Keynes' economic theories remain robust and relevant. Challenging but accessible, their book provides a clear and compelling analysis of the roots of our global financial crisis and the lessons we can learn from it.

Keynes' macroeconomic model for dealing with The Great Depression, Temin and Vines indicate, was a step toward an even more fundamental international economic model. Simply put, Keynes realized that a nation's domestic monetary and fiscal policies (to adjust levels of production and consumption) and its "external position" (exchange rate and import levels) affect each other and the economies of all the nation's trading partners. For the international economy to be stable, short-run measures should be consistent with intermediate and long-term approaches. And, in fact, the Marshall Plan, the Bretton Woods Agreement, the International Monetary Fund, the World Bank, and the General Agreement on Tariffs and Trade played important roles in sustaining the "golden age of growth" that followed World War II.

In recent decades, the authors maintain, deregulation, a "free market" attitude toward the flow of international capital, and an obsession with short-term measures to achieve internal balance have destabilized the world economy. Instead of adopting a tight fiscal policy and a devalued exchange rate, for example, the United States cut taxes, deregulated financial institutions, and kept interest rates at historic lows (the so-called "Greenspan put"), thereby creating the very irrational exuberance the Fed chairman decried.

Lacking labor mobility and fiscal integration, the European Monetary Union, Temin and Vines point out, was especially vulnerable to local shocks. Making matters worse, policymakers in the Eurozone did not heed Keynes' advice that un-competitive countries suffering reductions in net exports should lean against the wind in boom times by raising interest rates to attract capital and reducing domestic spending, even if such actions also meant a rise in unemployment and a decline in wages. This approach, the authors suggest, would have caused inflation to be lower in Greece, Ireland, Italy, Portugal and Spain (GIIPS), moderated bubbles in property valuations, slowed the expansion of bank lending and restored their global competitiveness.

To avert disaster, Temin and Vines maintain, Germany, "the putative hegemon in the Eurozone," must play a more constructive role. Instead of imposing austerity so severe as to keep Greece, Spain and Italy below an acceptable internal balance, Germany should secure commitments about responsible taxes and spending and also allow the EMU to become a lender of last resort by issuing Eurobonds (which enable a government to secure loans backed by all the governments in the Eurozone).

Temin and Vines believe that the content of policies that will increase the likelihood of achieving internal and external balance "is easy to see." They include putting austerity on hold (temporarily), expanding government spending and managing debt. The authors are far less certain, however, that the nations of the world have the political will to implement these policies. The task is complicated, they claim, by the absence of a "hegemon" (akin to England at the beginning of the 20th century and the United States at the end of World War II) to "lead the world economy toward prosperity and balance."

More important, it seems to me, is the powerful reality of "The Prisoner's Dilemma," in which each country thinks compulsively about its own interest rather than of the world as a system which rewards collective action. A reality in which short-term benefits trump intermediate and long-term gains. Preoccupied with the maintenance of support at home, for example, China remains reluctant to respond to the recent economic slowdown by diverting production from exports to domestic consumption, even though this policy would reduce pressure on the United States and Europe.

Nor does it seem likely that global powers will allow a G20 organization to set rules to ensure that the recovery is sustained and that rebalancing occurs, by, for example, preventing fixed exchange rates from blocking necessary adjustments.
And so it is hard to blame Temin and Vines for being pessimistic about the future. The obsession with public debt, they conclude, is reminiscent of the policies that followed the First World War and that led to -- and prolonged -- the Great Depression. The authors deserve lots of credit, however, for raising Keynes -- and for hoping against hope that somebody out there in a position of authority is listening.