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Structure *versus* Agency in the Great Deprivation of 21st Century

By

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Abstract

Agency-based explanations of the great deprivation, contrasted with structure-based explanations, suffer not merely from the criticism of relying on irrational and irresponsible behavior of millions, including that of the most astute financial experts, but are also at a loss to explain why such problems did not arise earlier when the same motivations and behavioral patterns were exhibited, thereby rendering such theories incomplete. Alternatively, if it is argued that such problems did not appear earlier because the economic structure was different then, then again attention must return to an examination of structure, not exclusively place blame on agency failures. (98 words)

Keywords: structure; agency; great deprivation; financial crisis; fiscal policy; monetary policy; skilled labor markets; American economy; involuntary unemployment; voluntary unemployment; education; training; skill acquisition; income distribution; China; India; Germany; Japan

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Structure *versus* Agency in the Great Deprivation of 21st Century

Without doubt, the world is currently facing a financial crisis of staggering proportions. Hyperboles such as the ‘financial crisis of the century’ or ‘credit tsunami’ have recently been employed to highlight the scope of the event. The world is now caught in what the Prime Minister of Japan has described as “A storm that is seen once in a hundred years.”

In fact, the loss of wealth in terms of the fall in stock prices (as measured by S&P 500 in the U.S. just in 2008 alone is over 41%, amounting to more than \$7.3 trillion, contrasted with 47% fall in 1931, which amounted to a much smaller dollar value). Similar phenomena have been observed in a number of countries including Japan, Germany, France, the U.K., South Korea, China (more than 60%), India (more than 50%), Thailand, Russia (70% fall), Iceland and Brazil, among many others. The financial sectors of these countries are not the only segments of the economies that have suffered setbacks.

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1. Financial Crisis and Recession

No country is immune to downward spiraling economic activity. Countries in a recession include Denmark, Ireland, Germany, Japan, and Singapore, among others, and the United States on November 17 was declared by the Federal Reserve Bank of Philadelphia to have fallen in a “14-month recession”. That it will last 14 months is a thoroughly wild guess. Almost 2 million jobs have been lost in the U.S. in 2008 alone. And, in the 12-month period ended August 2008, home foreclosures in the U.S. have increased 105%.

Economists are seeking to examine the financial and banking systems and their regulatory mechanisms to find the financial-sector solutions to the problems, as for example, in Richard Baldwin and Barry Eichengreen (2008), or Andrew Felton and Carmen Reinhart (2008). The impression seems to be that there were loose regulations that led agents to engage in irresponsible behavior, and if only one would reform the financial system, perhaps radically change it, such phenomena would disappear.

I argue below that such a position is thoroughly misguided. For, among other things, such an explanation of the so called “financial downturn” relies on the presumption that agents did not bring reason to bear on their choice of action, and thus did not take responsibility for the (long-term) consequences of their actions, and in this very general sense (see Amartya Sen, 2000), acted irrationally (to work to get themselves fired, or bankrupt their own businesses). But, irrationality can hardly be the basis of any sound theory, because absolutely anything can be explained on that basis.

Explanations of the great deprivation based on agency, contrasted with explanations based on structure, suffer not merely from the criticism of relying on irrational and irresponsible behavior of millions, including that of the most astute financial experts, but are also at a loss to explain why such calamitous problems did not arise earlier, when the same motivations and behavioral patterns were being exhibited, thereby rendering such theories incomplete. Alternatively, if it is argued that such problems did not appear earlier because the economic structure was different then, then again attention must return to an examination of structure, not exclusively place blame on agency failures.

As I argue, *the cause of the great deprivation of early 21st Century is purely politico-economic in nature. And the solution is to correct the structural imbalances in the labor*

markets of the American economy that have arisen as a consequence of a social-earthquake type of shock it experienced during 2000-2001, with world-wide consequences.

It is crucial to keep in mind the fact that the structural imbalances in the American economy (with an unemployment rate at a 14-year *high* at the end of 2008) have precipitated the current economic turmoil, but other economies of the world, (for example, the German economy, that has an unemployment rate at a 16-year *low* at the end of 2008) do not suffer from such imbalances. Instead, they are experiencing the consequences of the contraction of economic activity in the \$14.25 trillion gigantic 2008 GDP of the American economy via the international linkages of reduction in the U.S. import demand. Therefore, the solution for the economic problems of the American economy and the solution for other countries' problems are simply *not* the same, again contrary to the positions taken in recent academic discourse mentioned above, even though the symptoms appear to be identical.

If there is one thing we have learned from the work of Peter Neary (1988, 1995), it is that, regardless of the cause, when productive capital moves internationally, the effects of capital flight overwhelm all other (substitution etc.) effects in commodity or factor markets in general equilibrium, because the production possibilities frontier itself shifts, inward for the country that loses capital. This is a very important insight. From an examination of international capital flight patterns, we can discern which countries have experienced greater structural changes, distinguished from those that have suffered primarily from the consequences of contraction of world demand for commodities.

It would seem to be an obvious explanation of the current great deprivation that the American economy (with a 300 million population) received a sudden, explosive shock from exposure to 2.3 billion populations of China and India in 2000-2001, with the concomitant international wage differentials of colossal proportions, and that changed the structure of the American economy, to wit, virtually eliminated all demand for manufacturing workers and all skilled workers whose tasks could be performed off-site, because instantaneous or costless transferability of other skills in demand to these newly unemployed workers was and is impossible.

The same motivations of agents as before, and the same patterns of behavior as before, now ceased to lead to the results they used to in the past, because the structure of the American economy had undergone transformation. However, since modern economists have tended to focus far more on the agency aspects of an economy, namely the role of households and firms and financial institutions, and paid far less attention to the structure aspects of the economy, which are the bread and butter of development economists, this structural change was not sufficiently appreciated. It is high time we did so!

Moreover, as almost all countries experience contracting real national incomes and thus import demand, even the oil exporting countries are experiencing economic problems, simply because while the demand for crude is not very price elastic, it is certainly income elastic. With rapidly declining demand for crude oil, supply cuts should be expected to largely fail to stem the fall in world oil prices, for months, if not years to come.

2. What are the Specific Causes of a Boom and then a Bust in the American Economy?

It was a long-standing political stance of the U.S. to engage China, at least since the *Ping-Pong Diplomacy* of President Nixon and Secretary Kissinger, which led up to the U.S.

granting to China in 2000 a permanent Most Favored Nation Status. Subsequently, in 2001, China was inducted into the World Trade Organization.

The consequence was that while in 1990, one year after the Tiananmen Square massacre in Beijing, the U.S. trade deficit with China was \$6 billion, in 2007 it stood at a whopping \$251 billion, higher by far than with any other country in the world. The U.S. imports from China in 2007 were worth \$321 billion, and European imports from China stood at \$300 billion.

This is because the Chinese manufacturing workers earn \$6/day, contrasted with the American minimum wage that is above \$6/hour (for an eight-hour day). In fact, in 2007, the United Auto Workers' (UAW) Union made a concession that for new hires into the American car industry, they would pay \$15 per hour instead of the originally pre-determined \$28/hour. Given such enormous wage differentials, American capital has moved to China in huge doses, causing plant closings in the U.S., and opening up American-capital financed manufacturing units in China.

Moreover, again as a matter of political policy, in late September 2001, President Bush lifted trade sanctions imposed under the terms of the 1994 Nuclear Proliferation Prevention Act following India's nuclear tests in May 1998. This was related to India agreeing to monitor sea lanes for terrorist activity from Singapore to the Suez Canal.

From virtually no economic ties between the two countries for over three decades, in 2007 the U.S. exports to India were more than \$17 billion, and the U.S. imports from India were \$24 billion. The United States is now India's largest trading partner.

As has been the case with China, India has also been the recipient of significant Foreign Direct Investment. From 1991 to 2004, the stock of FDI inflow to India increased from USD \$11 million to \$344 million, totaling \$4.13 billion, which constitutes a compound rate of growth of over 57% annually.

Further, the United States is one of India's largest direct investors. American direct investment in India in 2007 stood at \$9 billion, accounting for 9% of total foreign investment into India, with a concomitant outsourcing of skilled American jobs to India. This is because Indian skilled workers earn anywhere between \$12,000/year and \$20,000/year, with comparable workers in the U.S. earning anywhere between \$60,000 and \$150,000 annually.

Starting in 1998, right up to 2005, there was a real estate boom in the U.S., fed in part by the injection of Chinese trade-surplus-generated foreign exchange earnings into the U.S. financial markets, and in part by the recycling of foreign exchange earnings of petroleum exporting countries.

There was also a dramatic increase in purchasing power of the American dollar when in 1997-98 the currencies of South Korea, Thailand, Malaysia and Hong Kong depreciated by fifty percent, and that of Indonesia depreciated by 80% in a mere eight-month period, a severe deprivation episode that has come to be known as the East Asian Currency Crisis, again because inadequate attention was paid to structural changes arising from a decline in import growth of East-Asian commodities into the U.S., while focusing on financial market problems and their spread via the contagion effect.

This increase in American real income in terms of cheaper East-Asian commodities, in addition to injections of foreign countries' net export earnings into the American financial markets, in combination with low-down payment requirements for house purchases, and successive interest rate cuts during Alan Greenspan's tenure as the Federal Reserve chairman, together led to such a real estate market boom that almost 70% of American households 'owned' their homes by 2005. This is the real explanation of skyrocketing prices of Mortgage Backed Securities, where an MBS is a collection of a couple of thousand mortgage loans from across some states in America.

3. Causes of the further Worsening of the Great Deprivation of Early 21st Century

Since India was a British colony, just as was America, a great many Indians are English speaking. Add to that the fact that the population of India is over one billion, and the fact that despite a literacy rate of only 61%, since the Indian government since independence in 1947 has made education free from primary level to PhD, there is a sizable army of educated, English speaking workers, a good many of whom belonged to a category known as 'Educated Unemployed'.

It is not surprising, therefore, that it is now possible for an X-ray radiograph taken in the U.S. to be digitalized, sent as an attachment to an email to a radiologist in New Delhi, it is read by a well-trained Indian radiologist, and the report sent back to the U.S. by email, all for \$15,000/year, instead of paying an American radiologist over \$100,000/year.

As more Chinese manufactures were imported, manufacturing production started to decline in the U.S.; more American workers were laid off. In addition, as more American corporations moved operations in the Information Technology and Pharmaceutical sectors to India, outsourcing of jobs to India mounted, and more American skilled workers lost jobs.

In fact, in the week ended December 20, 2008, figures released by the U.S. Labor Department showed that new (first-time) jobless claims filed were at a 16-year high of 586,000.

Unemployed people cannot make mortgage payments. Mortgage defaults have risen sharply. As a consequence, far more than 20% of the mortgage loans in the MBSs will become non-performing in the months to come. This has already led to one of the sharpest falls in the market prices of MBSs.

For example, the investment banking firm Merrill Lynch sold \$31 billion worth of MBSs in July 2008 for 22 cents on the dollar. Now the prices of MBSs with 75-80% well-performing mortgage loans have a market price of zero.

The pre-conditions of the Great Deprivation of early 21st Century in the U.S. were fully in place by the end of 2001, by when the American population of 300 million persons was exposed to an army of 2.3 billion persons in China and India, and by 2004 its effects were already being felt, as noted by the U.S. Congressman Frank Wolf of Virginia in a speech he gave on March 24, 2004, in which he pointed out that "Commerce Department data show that since December 1997, over 3 million U.S. manufacturing jobs have been eliminated as imports replace domestic production." The financial manifestations of this phenomenon, however, only became sufficiently visible to some in 2007 and to others in 2008.

4. Markets for Labor of Very Different Types of Skills and Protracted Deprivation

It is important to note that the supply of \$6/day manufacturing workers in China has not been exhausted. Nor has the supply of \$15,000/year educated, skilled English-speaking workers in India been exhausted. So, more job losses and thus foreclosures will occur. Thus the process of increases in unemployment across a wide array of skill categories has not ended in America. Nor indeed is the process of the consequent increases in bankruptcy filings and house foreclosures over yet.

A distinctive feature of skilled workers is that skill acquisition is neither costless nor instantaneous, especially when industry lines have to be crossed, which is the only case of interest here: sizable structural imbalances in labor markets for *very* different classes of skilled workers. In fact, there appears to be very little room for transferability of skills from one person to another, especially if such a switch is across industry divisions, or if the person has had a long tenure in a specific skill category. A case in point is an architectural designer re-training to become a nurse or school teacher, or *vice versa*. For such an investigation, therefore, a model with persons constantly in a process of search across *slightly* different skill categories is not the appropriate vehicle.

The costly and time-consuming nature of such re-training poses additional challenges to addressing problems of structural imbalances in labor markets of specific skill categories when an economy receives a structural shock. This makes the efficacy of economy-wide public policies in solving specific-labor-market structural imbalances in modern economies highly questionable. *Significant issues pertaining to structure, not agency, associated with markets for skilled labor, have received scant attention. It is argued here that human resource development planning is called for, instead of economy-wide-targeted policies.* In an attempt to identify effective public policies for reducing skill-specific unemployment, some conceptual developments are necessary, and of particular interest is the concept of involuntary unemployment.

5. Structure of Modern Labor Markets: is Unemployment Voluntary or Involuntary?

Involuntary unemployment as a concept has proven difficult to handle, largely because all transactions in an economy are construed to be voluntary, so that if a person refuses to sell his labor, it must be by his choice. Refutation of the claim of the voluntary nature of all unemployment has taken the form of use of rhetoric, not formalization, such as the now-famous retort by Frank Hahn to ask if persons who are unemployed ought to be actually seen as being on vacation spells!

The difficulty in defining involuntary unemployment is not due to the concept of unemployment, but because of the difficulty in defining involuntariness or voluntariness. This is because personal freedom or liberty, and abridgment thereof, pose highly complex philosophical questions, rendering the concept of involuntariness (as well as of voluntariness) rather elusive, as evident from the work of, among others, Amartya Sen (2002). In this paper, however, by *separating the motivation* of an employment seeker from the motivation of others in an economy to incur the cost, or not incur the cost, of this person's re-employment, it becomes quite simple to both theoretically define and empirically identify involuntary unemployment as well as voluntary unemployment. While this is a theoretical achievement of some intrinsic value, it is part of a greater objective to find public policies for dealing with skill-specific unemployment across diverse categories.

Let $n(i, j, t, s)$ be the number of persons in an economy who have had a career in skill category i for time period t , for whom a switch to skill category j is a consideration, and s indicates their state of satisfaction with their current routine of life in their present employment in skill category i .

If it helps, one can think of persons with skill type i , as IT professionals, automobile manufacturing workers or finance professionals, in general those who perform tasks that can either be performed off-site from their point of demand (can be outsourced) or those who produce goods that can be imported, whereas j can be interpreted as workers for whom there is excess demand, such as nurses or school teachers or obstetricians, in general those whose tasks require contact between the provider and the recipient, and thus can be classified as belonging to the internationally non-traded sector.

Assume further that demand for skill category i was enough to fully employ all who wished to work in this field, in the initial general equilibrium. Assume, next, that the economy experiences an exogenous shock, and all demand for skill category i workers vanishes - forever.

Further, $t = 0$ or $t = 1$. If $t = 0$, then at finite cost $C^0 > 0$ a person with skill i can be re-trained to become a worker with skill j , for which there is excess demand, after the shock. However, if $t = 1$, there is a considerably higher cost $C^1 > C^0$ that no employer, even with a government subsidy, is willing to incur to re-train the person with skill i to become a worker with skill j , especially in light of a retirement package of cost C^2 acceptable to such persons, where $C^1 > C^2 > C^0$, by assumption. Here, C^1 can be considered a prohibitively high cost, as deemed by the relevant agents in the economy. In the following, if the cost of re-training is C^0 , the person will be called re-trainable, and she will be referred to as non-re-trainable if the cost is C^1 . (To ground ideas, if it helps, consider, for example, $C^0 = \$50,000$, $C^2 = \$200,000$, and $C^1 = \$500,000$).

Also, in the post-shock general equilibrium, $s = 0$ or $s = 1$. If $s = 0$, the person with skill i is non-satiated with the current state of her routine life, and is willing to re-train to acquire skill j . However, $s = 1$ signifies a person with skill i , who is satiated with the current routine of life, and is unwilling to retrain. For instance, if a person has been working on an assembly line of an automobile plant for 20 years, he might not be willing to re-train, or even if he were, the cost of his re-training could be prohibitive, relative to that of a retirement package. Alternative, if he has been on such a job for 2 years, he may well be re-trainable, but may or may not be willing to re-train.

In the post-shock general equilibrium, one possible classification is that there are four categories of unemployed persons with skills i . They are – and experiencing unemployment that is

1. $n(i, j, 0, 0)$, who want to re-train and are re-trainable – *involuntary*,
2. $n(i, j, 1, 1)$, who do not want to re-train and are not re-trainable – *voluntary/involuntary*,
3. $n(i, j, 0, 1)$, who do not want to be re-trained though they are re-trainable – *voluntary*, and
4. $n(i, j, 1, 0)$, who want to re-train but are not re-trainable – *involuntary*.

<u>Cost-of-Retraining</u>	Non- Prohibitive	Prohibitive
To Work		
Willing	C 1 – Involuntarily RETRAIN	C 4 – Involuntarily RETIRE
Unwilling	C 3 – Voluntarily RETRAIN	C 2 – In/Voluntarily RETIRE

Two clarificatory remarks are in order. First, there is no problem at all in defining conceptually, or identifying empirically, the notion of *involuntary unemployment*: a person would like to re-train and work but the cost of such re-training is prohibitive – Category 4, and the cost is non-prohibitive, as in Category 1. Similarly, there is no problem at all, conceptual or empirical, in defining *voluntary unemployment*: a person is simply unwilling to re-train and work even though the cost of such re-training is not prohibitive by any means – Category 3. To give such characterization to unemployment there is no reliance on capital market imperfections.

Second, persons in Category 2 are neither re-trainable nor do they wish to be re-trained, and are looking for retirement. They may be called Margret Thatcher's coal miners. During the 1980s, while Margret Thatcher was the Prime Minister of the U.K., the coal miners were seen to belong to this Category 2, and were given retirement packages, to remove them from the labor force. A similar approach may prove helpful for the American automobile workers in 2009. For instance, if a person has been working on an assembly line of an automobile plant for 20 years, he might not be willing to re-train, especially relative to the value to that person of a retirement package. Thus, Category 2 contains persons who could be classified as either voluntarily or involuntarily unemployed, but the distinction is inconsequential, because there is agreement between this group and the state that they should retire.

6. Structure versus Agency

In the pre- or post-shock general equilibria, i, j, t, s are *not* decision variables. They constitute the characteristics of the structure of the labor markets for different skills in a modern economy. Structure, not agency, is the issue here. Of course, at some point in the past, there was a role for agency insofar as different persons engaged in an act of choice to select their skills, based on their distinct opportunities and predicaments. However, in any given period of time, given costly cross-industry re-training, the structure of the labor markets, and *inter alia* of the economy, constitute a given configuration.

A question arises as to whether and how unemployment can be reduced in this economy, contrasted with public policies that will be less effective and ones that are bound to fail. Education or skill-acquisition public expenditure on Category 1 persons, re-trainable and eager to retrain, will be most effective, while spending on Category 2, non-re-trainable and averse to retraining, will fail, must be retired. Category 4 persons are cheaper for society to retire, even though they are averse to retirement – this is also a group that suffers from such a policy. A clear implication is that a general increase in government spending, not specifically targeted to any particular group, will lead to very mixed results.

Thus, the usual Keynesian solution of an overall increase in government spending to stimulate the economy as a whole is not a recommended policy, because while it creates additional aggregate demand, and some form of additional employment, it does not address the specific structural imbalances in the different labor markets of the economy. Similarly, an expansionary monetary policy that also targets the entire economy at once will fail. Specific human resource planning, not necessarily by dictate, is called for. Incentive compatible mechanisms can be designed for this purpose.

Since skills are not transferable costlessly or instantly, unemployment in some skill categories will coexist with shortage of labor in other skilled categories, and this will happen for prolonged periods of time.

Next, compare two economies that suffer from the type of structural imbalance described above. Assume that they are otherwise identical, except that in any given year, in Economy A only one person finishes college out of every four persons who finished high school four years earlier, while in Economy B, three out of four do so. Which economy will find its structural imbalance corrected faster? Economy B. However, the stylized facts of the American economy resemble those of Economy A (27% of high school graduates finish college). Those pertaining to Belarus resemble the stylized facts of Economy B, for example. It follows that the rectification of the structural problems in the American economy will take much longer – a minimum of four years – if the problem is recognized immediately, and remedies discussed above are also introduced right away. Not otherwise!

Massive changes in the American educational system, and huge doses of investment in education, training and skill acquisition, especially at the primary, middle and high school levels, are called for. Massive! This will prepare a larger proportion of the American population to finish college to become competitive with workers in other parts of the world.

There is one additional significant fact that deserves notice. Income inequality has increased in the U.S. to the highest level since the start of the Great Depression in 1929. With some American capital having moved to China and India, American capital owners have incurred lower labor costs, thereby experiencing higher profit incomes. Simultaneously, American manufacturing and skilled workers who lost jobs to workers in China and India, among other countries, have experienced a fall in their incomes.

Thus some have become richer in America, and others have become poorer. Actually, the top 1% of income earners in the U.S. garnered 8% of national income in 1980, but now they earn 24%, the highest concentration of income since the Great Depression started in 1929. Indeed, even if an expansionary fiscal policy like the New Deal is adopted, that would definitely serve to generate additional demand for labor in public-works programs such as infrastructure development, but these new jobs would be low-wage jobs, and while somewhat beneficial in terms of providing temporary relief, such employment will still keep many Americans at lower standards of living than was earlier the case.

7. Mechanism Design

An interesting case is of persons in Category 3 who are voluntarily unemployed. It is for this class of persons that a mechanism could be designed to forge a path to employment. An incentive structure that would change the behavior of these persons so that they become willing to re-train is called for. The policy implications for the other three cases are quite straightforward.

Suppose it is the objective of the state to act in the interest of rectifying labor market imbalances at the lowest resource cost to society. Then, persons prohibitively expensive to retrain, and unwilling to retrain, in Category 2, should be given permanent retirement, at a maximum cost of $C^2n(i, j, 1, 1)$, because it is incentive compatible for these persons, on the one hand, and for the state, on the other. So should persons in Category 4, who are prohibitively expensive to retrain in terms of real national incomes cost, be given permanent retirement, at a maximum cost of $C^2n(i, j, 1, 0)$. However, for involuntarily unemployed persons in Category 1, $n(i, j, 0, 0)$, at a maximum cost of $C^0n(i, j, 0, 0)$ employment in skill j can be achieved.

The voluntarily unemployed persons, in Category 3, who could be retrained for a cost of $C^0n(i, j, 0, 1)$, but who refuse to do so, there is a need to design an incentive mechanism that would get them to switch their behavior to retrain and become employed in skill j , instead of taking a retirement package at a higher cost of $C^2n(i, j, 0, 1)$. This is simple enough. Just do not offer them a retirement package, but offer them financing for education or re-training, and these persons will end up accepting this option as long as their personal utility from this is higher than their utility from remaining unemployed without a retirement package. To design such a mechanism is not hard at all. Further, while they may or may not prove to be sufficient, *the measures I have outlined above are absolutely necessary measures for solving the problem in the American economy that is so structurally unbalanced in terms of its skilled-labor markets.*

8. Conclusions

After being shielded for almost 40 years, between 2000 and the end of 2001, the American economy experienced a social earthquake-like structural shock due to a sudden exposure to 2.3 billion people of China and India. This is the real, political-economic cause of the colossal structural adjustment that the American economy is undergoing. And it is not over yet. This is the fundamental cause of The Great Deprivation of Early 21st Century.

Until the deepening and protracted skilled-labor market imbalances that plague the American economy are addressed, a contraction in the \$14.25 trillion American 2008 GDP (which is more than three times the Japanese GDP and more than four times the Chinese or German GDPs) will continue to reduce domestic demand, and *inter alia* diminish import demand, and through this international linkage plunge all countries of the world in to a great deprivation of early 21st Century for years to come.

China and India, Europe and Russia, Japan and the OPEC countries, Latin America and Australia, will all experience widespread human torment, as the American, and then other countries' demand for imports falls, and *inter alia* export production declines in all countries, leading to rising unemployment. It is therefore in the interest not just of the U.S. but also of all countries of the world to work in concert to resolve the problems of American structural imbalances. The focus must shift from agency to structure to achieve the objective of enhancing the extent of realization of collective human wellbeing.

It is crucial to remember that if something is called a 'currency crisis' as in the case of East Asia starting 1997-98, or a 'Financial Crisis' as starting in 2007-08 in the U.S. and then in the world, it only serves to shift attention away from the real (non-monetary) causes and thus consequences. The usage of such nomenclature has the unfortunate consequence of diverting attention away from the human suffering, and thereby leading even seasoned economists to focus far too much effort on relatively less significant matters such as the 'contagion effect', to the complete exclusion of seeking effective remedies for extreme human anguish associated with these phenomena. On November 17, 2008, the U.S. Department of Agriculture released data that showed that in 2007, 36 million American adults and children suffered from food insecurity, and of these, 12 million experienced severe hunger. All this happened in the richest country in the world, not in one from the third world, or one in which there is a civil war. Should this be called a financial crisis?

If this lesson regarding deprivation suffered by human beings is not learned from the so-called 'East Asian Currency Crisis', which was only the apparent symptom of a radical real-sector shock, it would be a grave error, with calamitous consequences in the form of human torment,

not unlike the agony of mothers giving up newborns in South Korea during 1998, increases in the numbers of orphans, higher incidence of child labor, and greater prevalence of hunger, among other such things. As is typical of such Great Deprivation episodes, people lose jobs, they suffer, their children experience distress, relationships break up, people get depressed, divorces occur, and families are abandoned. Misery spreads.

If the distinction between the real-sector *structural causes* and the financial-sector *agency consequences* is not appreciated sufficiently, there is a very high likelihood that the deprivation that has been suffered already by people in the U.S., which is bound to become quite severe in the months and years to come, and which will spread to other countries to cause enormous hardship in other parts of the world, will be ignored once again, because the phenomenon will be seen as a mere ‘financial crisis’, and the remedies that will be adopted will only constitute a treatment of the symptoms, not a cure for the inherent problem at the core. Ideology is not the issue here, but one of averting needless pervasive human torment.

Unprecedented interest rate cuts by central banks in 2008 (Japan down to 0.1%, the U.S. 0 – 0.25%, for example), and mind-boggling government-spending (running into trillions of dollars) to bailout financial and other institutions, have utterly failed to rescue the American economy, or the Japanese economy, among others. Solely by themselves, financial solutions to current economic problems of the American economy will simply fail, contrary to the beliefs expressed in current theoretical and policy discourse as, for example, in Baldwin and Eichengreen (2008). This is the central message of this paper (based on my full-length paper available at <http://mpa.ub.uni-muenchen.de/11369/>).

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