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Reviving Old Debates: Austrian, Post-Keynesian, and Distributist Views of Financial Crisis

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The global financial crisis has revived both Austrian and post-Keynesian economic theories and reinvigorated the debate between these schools over the nature of the business cycle, the impact of external shocks, and the sources of uncertainty that destabilize markets. The Industrial Age social movement known as distributism also has experienced a popular resurgence because of its warnings about the combination of political and economic power and the moral consequences of economic indirection. This article contends that these three diverse perspectives are critically important in their own unique ways to the preservation of economic freedom in an era of immense complexity, massive bailouts, and calls for heightened regulation of a multifaceted and dynamic financial sector.

An interesting outcome of recent financial troubles has been the revival of an age-old question over the causes of economic instability. The global crisis has resurrected debate between two non-mainstream economic schools, the Austrian and post-Keynesian, over the nature of the business cycle, the impact of external shocks, and the sources of uncertainty that destabilize markets. Among the post-Keynesians, Hyman Minsky, in particular, has enjoyed a posthumous surge in popularity with the resurrection of his financial instability hypothesis (FIH).[1] Minsky contended that crises such as the one from which we are attempting to extricate ourselves are endemic and result from normative changes in debt tolerance that are initiated during periods of prosperity. Participants in financial markets advance through progressively sophisticated stages of financing that draw them ever farther out on a limb in the firm's quest for profitability and the individual's desire to maintain his standard of living.[2] Instability is inherent, as Minsky saw it, because investors are pressured to adapt their behavior and expectations to increasingly complex financial instruments that heighten risk, and consumers are encouraged to take on ever higher levels of debt to keep pace. All participants are compelled to embrace financial innovation or endure an ignoble end through obsolescence.

Supporters of Austrian economics often respond that, absent government intervention, economies grounded in a system of law and property rights contain the corrective mechanisms necessary to weed out incompetence, inefficiency, and even unethical behavior, thereby stabilizing markets in a pattern of sustainable growth. Austrian economics differs from the neoclassical tradition primarily in its rejection of the neutrality of money and in the emphasis in Austrian business-cycle theory on disruptions caused by government interference, particularly in credit markets, which misallocate resources by generating asset prices that fail to reflect individual valuations.[3] The major financial problem, as those sympathetic to Austrian economics see it, is that system shocks have become institutionalized by way of the manipulative policies of central banks. Monetary authorities, burdened with fallible reason and imperfect information, act in ways so as to prevent attainment of natural levels for interest rates and the money supply. These interventions impact employment, asset prices, and other critical macroeconomic variables, and they prevent private banks from observing natural signals and making the adjustments that they would undertake in the absence of central authorities. Banking firms thus orient their activities in response to actions (and anticipated actions) of central banks rather than the natural movement of markets. Many analysts argue that the Federal Reserve System kept interest rates artificially low for a prolonged period in a way that underpriced asset risk and inspired an artificial boom that has now gone bust.

Comprehending the technical jargon—derivatives, credit default swaps, reference entities—associated with the present crisis has been a significant part of the problem. We are fast exiting the period when laymen could describe the workings of financial markets and even the assets in which they are invested with clarity. If we desire mass participation in the financial sector (indeed, today we require it as government entitlements, traditional retirement plans, and other institutions disappear), then we must be able to explain investment as much for the moral as for the material stability of the system. Continuation of massive bailouts adds to the perception of an intrusive government whose policies only exacerbate injustices that have already occurred. Economic downturns are inevitable in capitalist economies, but the seemingly arbitrary determinations of who wins and who loses in the present flux have shaken confidence in the system.

Reviving Old Debates

Along with the revitalization of Austrian and post-Keynesian economic philosophy, the somewhat obscure Industrial Age social movement known as distributism has enjoyed popular resurgence because of its warnings about the combination of political and economic power and the moral consequences of economic indirection. Distributism was promoted by an eclectic collection of intellectuals, artists, clerics, and social thinkers, including G. K. Chesterton, Hilaire Belloc, Arthur Penty, and Harold Robbins. The distributists advanced the implausible solution of voluntary wealth distribution in response to the growing divide in income and the working class's loss of dignity and living standards during the Industrial Revolution. Distributism's contemporary relevance is found in its emphasis on *concentration*, an abhorrent word to Chesterton who observed its abuses as much in the exploitative behavior of the trusts as in the pervasive reach of the state. He recognized that popular response to the growth of monopolies would be a turn to government—an even greater evil—as reflected in his statement, "socialism is but the completion of capitalist concentration."[4] Chesterton believed that the socialist threat does not arrive externally through imposition of ideology or dictatorial control but rather through endogenous, institutional transformation that concentrates power and blurs the line between public and private interests.

The continuing economic instability and still troubling financial signs suggest the need to catch our collective breath and reflect on what has happened to the global economy. The complexity of present problems suggests that disparate perspectives are necessary to fully understand the threats to economic growth and human liberty posed by financial disorder. Elements of Austrian, post-Keynesian, and distributist thought shed light on a dilemma that resists neat encapsulation. Supporters of Austrian theory keenly assert that central banks inject a variable of flawed decision-making into a spontaneous market order of immense complexity.[5] Post-Keynesian analysis contends that complexity in financial instruments and processes contributes to uncertainty and volatility; advancing sophistication has an inherently destabilizing influence. Distributism emphasizes the negative moral effects of economies in which causes and consequences have become detached. Chesterton, in particular, posits the loss of liberty in such a system, which attends an evolutionary progression from capitalism to socialism and the arrival of an oppressive force he labeled "consolidarity"—a blending of the worst aspects of big government and big business. These three diverse perspectives on the destabilizing and potentially despotic forces of modern economies are of critical importance to the preservation of economic freedom in an era of massive bailouts and calls for heightened regulation of a vastly complex financial sector.

A Rational Analysis of the Crisis

The market system is critically dependent on a baseline of predictability. Action must lead to intended consequence with some measure of consistency to ensure a minimum degree of confidence. Losing one's shirt is a possible outcome of participation in a capitalist economy. That outcome, however, is not problematic (indeed the possibility of failure is necessary for the long-term health of the economy) as long as some credible source can explain with a minimum of coherence why some are shirtless. The most psychologically damaging aspect of the present crisis is its reflection of our increasing inability to explain profit and loss, contribution and value.

Innovation in finance is emerging as a major source of economic volatility. So, too, is pace—the frenetic acceleration of the American economy that saw one type of derivative alone, the credit default swap (CDS), grow into a $54.6 trillion industry in little more than a decade.[6] Such growth is a tribute to the creative genius of American capitalism. It is also one means by which investment firms, insurance companies, and other traditionally conservative American institutions bypassed standards of leverage and jeopardized the system. One need only observe an April 2009 *Time.com* article by Douglas McIntyre entitled "More Quickly Than It Began, the Banking Crisis Is Over" to get a feel for the dizzying pace of crisis management in the present age.[7] Discussions of insolvency's forcing the nationalization of the banking system were commonplace only a couple of years ago; today there is talk of banks' record revenues and potential to exploit consumers in their newfound, government-backed positions of market power.[8]

The aggressive investment stance of many banks is a relatively new phenomenon. Paul Krugman notes that after the Great Depression the United States implemented "a tightly regulated banking system, which made finance a staid, even boring business."[9] He suggests that boredom is good in finance; the simplicity of one's mortgage being held by the same institution for thirty years may imply constrained profitability to some, but there is wisdom to this traditionalism that supports the psychology of the consumer as much as the solvency of the lender. Krugman observes that even in the 1960s, "finance and insurance together accounted for less than 4 percent of GDP."[10] That mindset changed beginning in the 1980s with the emergence of "securitization" where lenders and financial intermediaries began to bundle and remarket loans in ever more sophisticated packaging.[11] In particular, the bundling of subprime mortgages into securities—and the aggressive trading positions of banks, investment firms, and insurance companies in this market—jeopardized the system by making the assessment of risk associated with these assets virtually indeterminable. The intent of securitization was to invigorate the financial system and spur greater levels of economic growth while spreading risk among more players, theoretically adding stability. Instead of distributing risk and stabilizing financial markets, risk escalated and became concentrated in companies “too big to fail.”

AIG became the corporate poster child of too-big-to-fail, but after more than $180 billion in government bailout funds, many who are sympathetic with distributist economic views might argue that it was too big to save. AIG and other insurers used innovative financial instruments to shift much of their risk exposure out of regulated insurance contracts and toward unregulated capital markets. Catastrophe bonds, for example, offer high rates of return in exchange for buyers’ willingness to accept the risk that catastrophic events—hurricanes, tornadoes, floods—may occur and drop the maturity value of those bonds significantly.[12]

Similarly, the credit default swap (CDS) is an insurance-like contract designed to transfer credit risk between parties by enabling one party to pay a sum that serves effectively as a premium while the other agrees to pay if a specific “credit event” occurs, such as a corporation’s defaulting on its outstanding debt. The CDS transactions were created to lessen the exposure of bondholders to economic changes that threaten the financial health of the firms whose bonds they hold. According to the chief executive officer of Creditex, Sinil Hirani, they serve “a very useful function of allowing financial markets to efficiently transfer credit risk.”[13] The problem has been the emergence of the “naked CDS” that enables speculators—investors who take out insurance on bonds even though they do not actually own those bonds—to bet on whether firms will repay their debt.[14] In a remarkably short period of time the generation of naked CDSs overwhelmed the market. This form of insurance recently has branched out to cover the debt obligations of public institutions such as municipal and state governments.[15] Lack of regulation in the CDS market led to incredible ease of engaging in such transactions and the impossibility of knowing overall exposure of financial and insurance firms to particular credit events such as defaults and bankruptcies.

Michael Greenberger, a University of Maryland law professor and formerly a director at the Commodity Futures Trading Commission, describes the CDS this way: “It’s sort of like I think you’re a bad driver and you’re going to crash your car. So I go to an insurance company and get collision insurance on your car because I think it’ll crash and I’ll collect on it.”[16] Traders profited significantly by betting on failure. While attempts to minimize investment risk are natural and long-established responses to market conditions, what has changed in the past few decades is the potential profitability of betting on others’ misfortune, the leverage possible to play this game, and the eagerness of traditionally conservative financial institutions to join in.

The uneven application of technology also played an interesting role in the specific case of CDS transactions. The terms of seven-plus-figure CDS contracts were often established via email and text message, and there was little back-end automation that would enable observers to assess the overall level of risk.[17] Lack of regulation over CDS reporting requirements and the inconsistency and unreliability of pricing and other information that was spread across multiform databases enabled systemic risk to develop under the radar at an alarming rate.[18]

Many parties have been guilty of excess in the present crisis. Consumers were willing to take on historically outlandish levels of debt, and lenders were willing to provide it. Underlying it all is an ethic of competition that convinces financial analysts, investment bankers, hedge fund managers, and even consumers that their survival is at stake in these decisions. Reflection on contemporary financial problems in historical perspective has scholars rethinking the purpose of financial regulation and methods of its implementation. Columbia's Charles W. Calomiris questions whether even the expansion of government insurance to bank depositors was a good idea. Calomiris notes that the theory of irrational bank runs as a major source of instability in past economic crises was popularized in *A Monetary History of the United States* (1963) by Milton Friedman and Anna Schwartz, but he suggests that we may need to rethink our overall approach to public insurance for the financial sector.[19] Traditional deposit insurance is one means of eliminating this potential source of instability; however, Calomiris argues that studies over the past few decades suggest that "deposit insurance removes depositors' incentives to monitor and discipline banks, and frees bankers to take imprudent risks."[20] Lack of discipline has been exposed throughout the financial system and even among the regulatory agencies that oversee it.

Other analysts see the situation differently, insisting that inadequate regulation has been a principal cause of financial troubles. Paul Davidson contends that repeal of the Glass-Steagall Act by Congress in 1999 broke down traditional functional divisions among parties to financial transactions, enabling American banks to sell the mortgages they created to underwriters who then repackaged them for sale to investors.[21] Repeal of this legislation created a situation in which mortgage-originating banks had no real need to ensure the creditworthiness of their customers because in most cases mortgages were resold on the secondary market, often within days of origination. As has now become clear, this legislative change worked in combination with the laxity of bond rating agencies, the unrealistic expectations of investors and consumers, and the rising inability of investors to accurately value securitized assets, thus enabling the churn of mortgage-backed securities throughout the system and obscuring levels of systemic risk.[22]

Regardless of the exact causes of the crisis, it appears that the level of growth we recently enjoyed has been a mirage produced by excessive leverage throughout the system. Watching competition in financial markets spin off into the stratosphere with the development of increasingly complex financial assets and methods, we may recognize some good in the staid practices of traditional finance as Krugman has noted. After all, is this a sprint or a marathon? Moreover, the government intervention that ostensibly has been necessary has significant shortcomings in its attempts to right the ship, being hamstrung by institutional confusion, the lack of market orientation, the pressures of "constituency," and the commonly observed inclination to inefficiency. It seems that no one desires a government solution but many have called for it. Yet, the magnitude and intricacy of present problems suggest that there will be no silver bullet emerging from either the public or the private sector. A variety of perspectives are needed to help navigate the institutional complexity of the present system, identify underlying incentives for the behavior that contributed to the crisis, and open the window to our social imagination in finding solutions.

Distinguishing among "Moral" Alternatives: Austrian, Post-Keynesian, and Distributist Views

While there are significant differences among Austrian, post-Keynesian, and distributist traditions, there is also nuance within these streams of thought that make them far from monolithic and actually enable elements of convergence among them. Minsky's followers, for example, hardly represent the full spectrum of post-Keynesian economics. Bill Gerrard has defined it as a "diverse and continuing research effort, characterized at times more by its fragmentation and internal division than by any unity of purpose."[23] Minsky's financial instability hypothesis is emphasized here for its relevance to contemporary problems. Post-Keynesianism as a whole is distinguished by its emphasis on the non-neutrality of money; "sticky" wages and prices; ubiquity of uncertainty and asymmetric information; and, in the case of Minsky and his followers, endogenous financial instability that results from natural cycles of economic expansion and contraction.

Austrian thought is more uniform than that of the post-Keynesian School, but it, too, demonstrates variation on different levels. Joseph Salerno, Murray Rothbard, and Jeffrey Herberner created a stir in the 1990s by publishing articles in the *Review of Austrian Economics* that suggested Mises and Hayek differed in their respective views on such a fundamental issue as the role of the pricing mechanism in the "problem of socialism."[24] Another contributor to Austrian economics, Wilhelm Röpke, is known for giving the tradition a distinctly humane face in his explorations of the religious and ethical underpinnings of economic life. Röpke was notable for his consideration of the "extra-economic" (particularly religious) foundations of the market order, and for his distributist-like emphasis on small units of production and their contribution to human happiness.[25] Yet, he retained the central Austrian position that artificial adjustments to interest rates by central authorities inhibit natural adjustment processes and lead to negative outcomes.[26] Austrian economic philosophy is characterized by the subjective theory of value; advocacy of a "minimal state"; praxeological interpretations of economic behavior;[27] ordinal marginal utility; non-neutrality of money (common with the post-Keynesians); and, most importantly, the greater efficiency of resource allocation and preservation of human liberty facilitated by free market economies *vis-à-vis* other forms of economic organization.

Distributism, by contrast, offers no theoretical alternative to schools of economic thought; rather, it provides a unique paradigm on present problems that assumes an evolutionary character to capitalist economies that inevitably works toward the concentration of power and the illusion of individual choice. The distributists' eclectic composition insists that this social movement was far from uniform. Despite Chesterton's being a principal spokesman, *G. K.'s Weekly* being described as the "official organ of distributism,"[28] and the fact that Chesterton took umbrage at too-casual associations of his movement with socialism, some distributists were more favorably disposed to collectivist alternatives than were others. By the 1930s, Eric Gill, a major figure in the movement, was said to be increasingly inclined toward communism, having come to see fascism as the terminal point of big business and believing the communist system to be the only realistic alternative to it.[29] Another formative thinker, Arthur Penty, was for a period captivated by the culturally transformative potential of guild socialism. Thus, beyond the thought of Chesterton and Belloc as core theorists, distributist ideas are far from doctrinaire.[30]

Despite differences among contributors, and even ideological changes over time in individual views on the social problem, certain principles define distributism and set it apart: (1) expansive distribution of economic resources, (2) emphasis on the negative consequences of economic concentration, (3) inherent worth of the individual and the sanctity of the family, and (4) preference for small institutions and subsidiarity in social relationships.

Distributism, just as Austrian and post-Keynesian economic theories, offers a unique perspective on contemporary problems that increasingly seem to evade conventional solutions. At the least, these three distinctive perspectives may bring awareness to the fact that present troubles are rooted in conditions present from the beginning of capitalism: asymmetric information, moral hazard, and motivations for economic action that go beyond the thoroughly rational behavioral models of neoclassical economics. These models are and will forever be limited by the vast complexity of the human person and the institutions that go well beyond what can be captured by mere calculus.

There have been significant attempts to harmonize different economic philosophies. The neoclassical synthesis attempted to reconcile Keynesian macroeconomic insights with the neoclassical microeconomic perspective to better reflect the way the economic world functions. The belief that "countercyclical fiscal policy" is necessary during significant recessionary periods was advanced by Paul Samuelson and others who championed the synthesis. At the same time, advocates of the synthesis accepted the utility and profit maximization theories of the neoclassical school as well as the view that markets tend to function as neoclassical describes economics over the long term.[31] Some observe a preference for fiscal *vis-à-vis* monetary policy for those advocating the synthesis. The International Monetary Funds (IMF) chief economist and MIT economics professor Oliver Blanchard states that while synthesis supporters believe monetary policy can be employed to smooth fluctuations in reality it is subordinate to fiscal initiatives: "one feels that fiscal policy was still the instrument of predilection, that policy was thought of as fiscal policy in the lead with accommodating monetary policy in tow."[32] This preference means that, in periods of crisis, governments will intervene in the attempt to stabilize their economies. That is the dominant economic paradigm that exists today and, for many who support Austrian economic theory, one of the major problems in the system.

The Austrian, post-Keynesian, and distributist traditions differ from the rational, utility-maximizing principles of neoclassical economic theory in the sense that their economic assumptions are, to a considerable extent, *moral* assertions.[33] For the Austrian theorists, derision of central bank monetary policy as inherently destabilizing is also an indictment on the kind of hubris that convinces those in power that they can determine appropriate levels of interest rates; it is one piece of coercive authority that seeks to direct the social order and the path to progress. The "fatal conceit" of those constructivists who seek to extend government control into citizens' private lives is that the state can implement a planned order at the expense of natural and spontaneous development in a free society where individuals have true moral choice. That exertion of control begins with government attempts to adjust economic growth to desired rather than natural levels, but such manipulations inevitably have not only material but moral consequences as seen when market participants over-leverage their positions in periods of loose money. Conversely, for the post-Keynesians any decision to absolve government of responsibility in helping chart the path to the common good is morally deleterious from a social perspective. Government has a significant role to play because some determinations in social and economic development go beyond the capabilities of markets; moreover, the state must help relieve citizens from the burden of economic survival in periods when volatile markets threaten economic stability—it is a moral as much as a material obligation.

Distributists see moral hazards on both sides. Like the Austrians, they acknowledge that state power (and its extreme realization in socialism) threatens the freedom of individuals to chart their social, material, and ethical development. Distributists, however, see the path to socialism's emergence through the consolidation of big business and big government that is inevitable in capitalist economies and through the increasingly indistinct delineations between public and private sectors that result from this consolidation. Big institutions of all kinds are the villains in the distributist worldview. Yet, despite their mutual view of government as something of a necessary evil, Belloc and Chesterton perceived the need for some authority to break up concentrations in economic power that impede social and moral development.

Post-Keynesian Analysis of the Crisis

Post-Keynesian economics is disciplinarily diverse, being influenced by the thoughts of Alfred Marshall, Joan Robinson, and Thorstein Veblen among others, including most notably John Maynard Keynes himself.[34] The Veblenian influence contributes to the notion that social institutions, broadly conceived, are highly significant in economic outcomes. The state, households, business firms, trade unions, banking system, religious organizations, and other institutions participate in a vastly complex and rather open-ended economic environment within a general condition of "bounded rationality" where the "economic system is not a 'self-balancing' but 'cumulatively unfolding' process."[35] Post-Keynesianism has been characterized by its view of capitalism as evolutionary and its inductive approach to economic research, relying on observation to mold "realistic abstractions" rather than beginning with the "imaginary models" of neoclassical economics.[36]

Minsky has emerged as a post-Keynesian authority on financial crisis and is distinguished at present for having cautioned against deregulation of the financial sector and the expansion of debt throughout the American economy. He studied under Harvard economist Joseph Schumpeter and was preoccupied with the application of Schumpeter's theory of "creative destruction" to finance. "Nowhere is evolution, change and Schumpeterian entrepreneurship more evident than in banking and finance," Minsky stated, "and nowhere is the drive for profits more clearly the factor making for change."[37] Traditional financial methods necessarily become obsolete as innovative means of money-making yield greater returns. Following on Keynes' observation of a "veil of money between the real asset and the wealth owner" as a "specifically marked characteristic of the modern economy,"[38] Minsky contended that changes in the money supply along with profit expectations and institutional complexity are among factors that complicate asset valuation and contribute to instability.

Luis Carlos Bresser-Pereira believes that the crisis resulted from the triumph of neoliberal ideology—a combination of neoclassical and Austrian economic principles in which progressively empirical and positivist economic approaches replaced the development economics of Gunnar Myrdal, Albert Hirschman, and others.[39] Neoliberalism spawned overconfidence in the corrective capabilities of markets that was shattered with the realization that some of the world's major financial firms had overextended and perhaps even misrepresented their financial positions in pursuit of profit. Financial deregulation in the United States fully reinforced irresponsible conduct and, to some extent, detached the financial sector from the real consequences of its actions. To Bresser-Pereira, the recent moves of policymakers who originally had been "taken in by the neoclassical illusion"—radical increases in liquidity, the rescue and recapitalization of major banks, expansionary fiscal policies, and renewed efforts to regulate the financial system—have all been appropriate.[40] Austrian critics of Keynesianism would point out that monetary and fiscal policies have unintended consequences of their own that inevitably require correction in what becomes endless application of exogenous shocks by public authorities.

Economists such as John T. Harvey of Texas Christian University see the need for such policies as inevitable because financial crises result not from "outside interference" but rather from forces that are "integral parts of capitalism."[41] The optimism that overwhelms the system in good economic times and leads to unrealistic economic forecasts is systemic, a part of the market system that comes about naturally as productivity and profitability increases lead to ever greater expectations. Unrealistic expectations lead to speculative behavior, eventually creating panic as debtors recognize their insolvency and default on obligations, and investors are forced to sell overvalued assets at substantial loss.[42] The system works its way toward a "Minsky crisis" where agents, who have taken on increasing levels of debt during economic upswings, discover that credit is no longer available and become unable to meet their obligations as income falls because of natural adjustments in the investment-capital cycle.[43]

Post-Keynesians see financial deregulation as enabling not only risky investment practices and exotic assets but also the kind of vertical integration in corporate structures that consolidate power and enable market manipulation.

Such consolidations prompt government action during crises because the massive institutions that result are thought to have the potential to bring down the entire system. Fear of big-business combinations has led some post-Keynesians to advocate additional government regulation of the financial sector as well as politically "dependent central banks and development banks."[44] These recommendations, however, overlook the disruptions caused by government intervention and ignore the fact that regulatory systems combining political and economic power are the most threatening of all to economic freedom and human liberty generally.

Austrian Economics and the Crisis

Unfortunately, we do not have the benefit of Friedrich Hayek's or Ludwig von Mises' analysis of present financial conditions. Contemporary proponents of Austrian economics, however, have weighed in on the crisis and have identified institutional impediments to the market's natural adjustment processes that they see as contributory. Frank Shostak offered a defense of the Austrian position against that of Minsky and the post-Keynesians, insisting that in the case of the American economy, the Federal Reserve Bank has undermined the system by fostering a "reckless expansion of credit" followed by an equally significant contraction.[45] Indeed, Shostak demonstrates that wild swings in monetary policy between 2000 and 2004 when the federal funds rate was lowered by more than 5 percent and, again, from 2004 to 2007 when the federal funds rate rose from 1 percent to 5.25 percent, contributed to a volatile period in finance that left banks, consumers, and investors scrambling for cover.[46]

Austrian theorists point to the business cycle as enabling sustainable growth through processes of natural adjustment and the need for government to minimize interventions in deference to those processes. Jerry Tempelman observes the negative consequences of public interference:

> When credit creation by monetary authorities exceeds a society's structural saving rate, financial intermediaries end up lending money at interest rates that are below the rate where supply and demand clear in the market for loanable funds. As a result, the information embedded in market prices (including interest rates) is distorted, affecting entrepreneurial decisions and causing a misallocation of capital across the economy.[47]

David L. Prychitko sees the emphasis on back-end credit problems in the present financial cycle as causing policy-makers to overlook the importance of volatility in the money supply that preceded these troubles. His analysis builds on Ludwig von Mises' "dynamic theory of the boom-and-bust cycle" outlined in *The Theory of Money and Credit* (1912).[48] Prychitko neatly summarizes the Austrian theory of how monetary authorities distort markets and create instability: "The central bank's injection of credit on a massive scale initially lowers the costs of (financial) capital among profit-seeking firms, and provides false signals and illusory safety margins that might encourage significantly more speculative and Ponzi financing."[49] To point out the deceptive nature of central bank credit, Mises coined the term *commodity credit* to describe the genuine cash flows into the banking system, resulting from changes in the savings and consumption preferences of households that lead to the "natural rate of interest"—a point on which Mises agreed with Swedish economist Knut Wicksell.[50] These injections of faux credit (that are not based on private savings) lead to artificial expansions and the contractions that inevitably follow, precluding market participants from acting on natural changes in the business cycle.

David Howden sees distortions brought about by central bank policies leading to what has been termed the *financialization* of the economy—displacement of real economic activity by purely financial activity as profit-seeking organizations respond to central bank policy "at the expense of consumer want preferences."[51] Howden insists that boom-and-bust cycles result from a knowledge problem as entrepreneurs, lacking knowledge of *real* conditions because of central bank interventions, are attracted to the financial sector for its enhanced, though artificially inspired, profitability.

Howden sees this distortion emanating from central bank actions as contributing to the "informational cascades" described by Bikhchandani and others as pricing information drifts farther away from first-order users who have access to detailed knowledge of conditions affecting the price of commodities. The entire system adjusts as "individuals no longer concern themselves with the particular reasons for price changes. Instead, they accept the price system as an approximate summary of these underlying reasons and economize on resources accordingly."[52] Contemporarily, informational cascades have contributed to a real-estate bubble where consumers, relying on easy credit, lost sight of "real" home values and depended on innovative forms of finance—refinancing, variable rate financing, balloon mortgages—that depended on increasing real-estate values to enable consumers to cover their debt obligations. Lenders were willing to provide credit with knowledge of these conditions. A question that divides Austrian and post-Keynesian theorists is to what extent central banks contribute to such cascades that precipitate crises.

Economic theorists and policymakers who adhere to the Austrian School were prescient in predicting the long-term consequences of monetary policy that was too lax in extending credit throughout the system for too long. William White, who headed the Monetary and Economic Department of the Bank for International Settlements from 1995 to 2008, warned of "the cumulative build-up over time of significant deviations from historical norms—whether in terms of debt levels, savings ratios, asset prices or other indicators of 'imbalances.'"[53] As chief economist of Goldman Sachs in 2002, William C. Dudley, who today heads the Federal Reserve Bank of New York, stated that federal monetary policy should have been tightened in the period from 1996–1999 to make the contraction of 2001 less intense.[54] Presumably, this would have prevented the spiraling intensity of central bank actions over the past two decades. Mark Thornton, writing for *Mises Daily* in 2004, criticized Fed Chairman Alan Greenspan's "new age economic panacea" that was primarily fueled by "equity extraction" enabled by low interest rates.[55] For Thornton, what Greenspan offered was not a panacea that provided greater "flexibility" as the chairman suggested, but rather "the shackles to an economic nightmare."[56]

Austrian economic philosophy has been exceedingly helpful in explaining the disruptions caused by monetary authorities and their impact on economic growth. However, Austrian theorists, at times, have been too insistent on the Fed's role as the nearly exclusive villain in the present crisis. Federal policy has indeed contributed to instability and encouraged irresponsible lending and borrowing practices; however, such policies were matched by the unrealistic expectations of lenders for continued high rates of return as well as consumers' seemingly insatiable demand for credit. If the Federal Reserve's "accommodative" policy was the sole cause of the crisis, then we should locate a more appropriate, directly implicating term with which to describe it. Austrian theorists undoubtedly are right that Fed policy distorted natural price and risk mechanisms that set the crisis in motion, but it also encountered an American public that was more than willing to take the credit system beyond the natural limits that the Federal Reserve had helped to obscure.

A Distributist Perspective on the Crisis

In making the case for distributism, Chesterton suggested that capitalism fosters economic institutions that combine with government in some form and inevitably lead to socialism. If there is any truth to Chesterton's theory, then attempts to address the financial crisis—the provision of TARP (Troubled Assets Relief Program) funds, government purchase of private securities, and heightened regulation of financial firms—should strike fear in the hearts not only of economic conservatives but all who are committed to liberty. Chesterton at least provided us with an inventive language and unique perspective that might help open the window of our social imagination with respect to present problems. Moreover, his understanding that the solution is essentially Christian should interest those who see the more robust engagement of religious traditions in economic life as part of the answer.

The principles of distributism suggest that the form of the present crisis was cast in rising complexity and concentration, the narrowing concept of the good, and the increasing specialization of modernity that has partitioned ethics. Chesterton recognized that increasing profitability had become the singular goal of economic existence in nineteenth-century Britain to the detriment of the arts, education, and religion. He also understood that complex linkages of ever-more specialized functions contribute to dependency and an increasing fragility of social structures even as they strain the ethics of individual participants.

Four key observations taken from Chesterton's essays on the flaws of Industrial Age society resonate with contemporary problems: (1) confusion over causes and consequences, (2) preference for bigness over smallness, (3) increasing separation of ownership from property, and (4) economic indirection. These phenomena associated with the social consequences of industrialization may help explain some of the perplexing aspects of the financial crisis—the disjunction of performance and reward, the rising power of government, and the loss of economic freedom—that sound more like descriptions of socialism than capitalism. Chesterton would suggest that there is logic in the resemblance. He constantly warned of "big commercial combinations" that are as imperial as they are impersonal, and he was convinced that big business inevitably leads to big government. From the distributist view, critics of the Obama administration's policies are right to see the increase in government authority as a threat to liberty, but they should also recognize that the mergers and consolidations that concentrated power during the boom times of the past three decades likely have contributed to the problems.

Chesterton realized that the socialists' solution was even more nefarious than that of the capitalists for its greater concentration of not only economic but also political power. In his 1935 debate with Bertrand Russell, Chesterton pointed out the socialist "fallacy that there is an absolutely unlimited number of inspired officials and an absolutely unlimited amount of money to pay them."[57] He called socialism "an extreme enthusiasm for authority," and he viewed socialist sentiments as arising from a similar desire for power as that expressed by the capitalists but from a widespread base; hence, socialism is the greater evil. In his essay "The Crime of the Communist" in *The Scandal of Father Brown*, Chesterton has the Professor of Chemistry describe socialism in a way with which he obviously agreed: "A scientific government, with a really ethical responsibility to posterity, would be always looking for the line of promise and progress; not leveling and flattening it all back into the mud again. Socialism is sentimentalism; and more dangerous than a pestilence, for in that at least the fittest would survive."[58]

Chesterton's last sentence is telling in light of the present crisis. He recognized that even pestilence allows the survival of those most fit, while socialism artificially supports those incapable of subsisting on their own. The idea that the American government would prop up firms and individuals who, most would concede, have done harm to the nation's economy would have been unthinkable only a few years ago. The most chilling aspect of recent changes in domestic policy is recognition that we are becoming desensitized to aberrations in contribution and reward. Today, the stakes are said to be so high that value contributed and even the ethics of participants are increasingly irrelevant to determinations of winners and losers. Government has begun to make such assessments in a way that Chesterton undoubtedly would see as the type of socialism that results from capitalist concentration.

Chesterton noted the willingness of industrialists and common men alike to immerse themselves in the scale and, at times, incomprehensibility of the system to justify one's actions. At that point, moral accountability is lost. Impersonalization and pervasive short-term thinking of big institutions have been critical factors in the present crisis. Individuals, convinced of their insignificance in the grand scheme of the things, feel little responsibility for the overall integrity of the system. Mortgage lenders, recognizing the churn of their industry as mortgages are passed through the secondary market, lost the incentive to ensure the creditworthiness of their customers.

State socialism and big business combine to forge large institutions in similar ways. Chesterton coined the term *consolidarity* to describe the commonalities, blending what he saw as the monopolistic consolidation of business with the diversity-destroying solidarity of the state. Whatever it is called, he says,

> It will be a world of organization, or syndication, of standardization. People will be able to get hats, houses, holidays, and patent medicines of a recognized and universal pattern; they will be fed, clothed, educated, and examined by a wide and elaborate system; but if you were to ask them at any given moment whether the agency which housed or hated them was still merely mercantile or had become municipal, they probably would not know, and they possibly would not care.[59]

Ireland's experience in the crisis perhaps most closely conforms to Chesterton's notion of consolidarity. Rapid expansion of the Irish economy from roughly 2000 until 2007 was fueled by debt that spread across public and private sectors.

Government policy encouraged irresponsible investment practices. Heavy indebtedness to major European banks, in turn, put pressure on the European Central Bank (ECB) and, in combination with problems in Greece and other member states of the European Union (EU), has threatened the continent's financial position. The aid package that Ireland negotiated with the International Monetary Fund (IMF) in 2010 amounts to 85 billion euros, which is around 54 percent of that year's gross domestic product.[60] The strain to recapitalize banks will impact the Irish economy for years to come. The IMF estimates that government debt could reach 123 percent of GDP by 2014, with more than 30 percent of that targeted toward recapitalization.[61] Robert Samuelson states that Ireland's conversion to the euro resulted in a loss of control over its credit policies and led to a mirage of economic expansion fueled by construction projects funded by credit.[62]

Ireland's boom and bust lends credibility not only to distributist but also to post-Keynesian and Austrian perspectives on the global financial crisis. Loose credit policies of the ECB in its dominant role with the Irish banking system created a mirage of economic expansion that fueled massive, highly leveraged construction projects in a way that was fundamentally unsustainable, just as Austrian School economists would predict. Post-Keynesians would note that it also created immense complexity among government agencies, lenders, intermediaries, and debtors that contributed to irresponsible behavior and helped lower traditional standards for financing, resulting in what Wolf describes as "self-fulfilling euphoria and then panic."[63] Much of the recent panic, even beyond Ireland, has been caused by artificial infusions of capital that overextended economic resources. These manipulations, often in some consolidaristic form of public-private cooperation, not only strain resources but, as Chesterton likely would observe, also confuse market participants as to the causes and consequences of economic action.

Lack of understanding of causes and consequences in urban life was a growing concern for Chesterton in his rapidly industrializing England. He observed that modernity creates dependencies and contributes to a lack of resiliency. "What is wrong with the man in the modern town is that he does not know the causes of things," Chesterton stated, "and that is why… he can be too much dominated by despots and demagogues." Modern man "is the type of cultivated Cockney who said he liked milk out of a clean shop and not a dirty cow."[64] He insisted that the disconnect between causes and consequences grows with the rising sophistication of "town civilization."

Lack of direction and direct relationships in economic life is what the distributists fought against. "Directness" is "the essential idea of distributism" and a critical component in preservation of a comprehensible, moral system.

"It concerns direct ownership, direct expression, direct creation and control."[65] Some indirection in modern society is inevitable, but the resignation of humanity to indirectness in economic life is unacceptable. "The evil is not so much that people do adopt indirect methods, which up to a point is rational enough," Chesterton said, "but that they deny that there is any disadvantage to indirect methods, and are therefore ready everywhere to substitute them for direct ones."[66] In our time, the waning comprehensibility of investment is a problem, but worse is the normalization of practices in which investors increasingly are detached from—or even ignorant of—what they own.

Exercise of reason without a clear connection to tradition and the public good was a key element of "insanity" for Chesterton; it is "reason used without root, reason in the void."[67] Insanity of the type Chesterton described has perhaps reached a temporary zenith with the derivative contract, but there is potential that other assets of greater complexity and similar collective volatility may be developed in the future, or perhaps lurk today within the system. What interest do parties to naked CDS contracts have in the events that ultimately trigger their settlement, other than the obvious transfer of money? That seemingly pointless question today would be of paramount importance to the distributists. They recognized that the drift from personal ownership and active involvement with what one owns strains social bonds and creates opportunities for injustice. In their time, absentee landlords with increasingly distant relationships to their tenants yielded the slums of English industrial towns. In our time, it allows detached investors to gamble on outcomes (often negative) in which they have no particular stake other than profit or loss.

The complexity of financial problems that continue to plague us reveals a moral flaw that is shared by politicians, factory workers, retail merchants, and Wall Street bankers alike. It is an economic ethos that values consumption beyond one's means and breaks with normative modes of competition by pressing the boundaries of ethics in the interest of achieving greater personal gain. Perhaps the previous statement drifts to moralizing. Does the moral question in this crisis not also have significant material consequences? So long as we continue to view overextension of credit and living beyond one's means solely as a consequence of failed reason and not of ethics, this problem will continue. We will recover and prosper again (perhaps with alarming speed), but the stakes will increase for the next crisis. Reerecting the economic train on the same tracks by simply pumping liquidity into the system and not addressing the root problems—now that is failed and flawed reason, even insanity.

One might protest that we are a mass society that requires massive institutions, and to a disconcerting degree that is true. For Chesterton that reality meant

Christianity is essential to prevent the exploitation of human beings by machine-like systems of political economy. He noted that when property is distributed and the psychology of small property becomes pervasive, then you have "something more like a land fit for Christians to live in. You can make them understand, as you cannot make plutocrats or proletarians understand, why the machine must not exist save as the servant of man, why the things we produce ourselves are precious like our own children, and why we can pay too dearly for the possession of luxury by the loss of liberty."[68]

Is there a better way to describe fears concerning the solutions proposed for our present crisis, that the desire for possession of luxury may now threaten us with loss of liberty? Government plans for economic recovery are likely to further concentrate economic power and combine it with political power in ways that are inequitable and unpredictable.

What Chesterton would see in the present crisis is the need for distribution and a return to the psychology of small business, small property—an approach that for him was fundamentally Christian. Christianity established limits, for Chesterton, to the size and impersonalization of economic institutions that help to prevent society from crossing the boundaries of common sense. Christian faith insists that we must hold property dear and treat each other as ends not means. He was convinced that he had located *the* Christian mode of economic life in distributism, but he was unable to articulate a method for its implementation in a way that would provide a realistic alternative to capitalism and socialism. Still, his criticisms of the two dominant economic philosophies of his day are highly meaningful with respect to contemporary problems.

Conclusion

If there is a silver lining to the dark cloud that is the global financial crisis, it has been the reinvigoration of a conversation on the kind of sustainable growth that ensures not only material prosperity but also moral flourishing. The remarkable economic advances of the past several decades have tempted us to complacency that we have mastered the economic cycle and achieved a system that is morally self-sustaining. However, recent financial turmoil and recognition that ethical transgressions have contributed to it shock us back to reality. Realization that our financial system often lacks coherence and discipline and the fear that government intervention will contribute to bigness, arbitrarily determine winners and losers, and threaten economic liberty suggest the need to return to the economic debates of history.

Austrian economic thought illuminates the present crisis by demonstrating the unnatural quality of government action in a system of economic liberty. The minimal role of public institutions should be the goal of capitalist economies that desire efficient resource allocation, sustainable growth, and the moral development of participants. Government is necessary for social order, but its actions tend to disrupt harmonies of the economic cycle through the decision-making of politicized bodies that function with imperfect information and flawed reason. Auburn economics professor Roger Garrison provides an Austrian recipe for what now must be done to restore financial health and place the economy on the road to recovery:

> For the Austrians the liquidation of malinvestments is essential to the economy's recovery. Resources need to be reallocated. Hence, any government-spending program that serves to rekindle the housing boom or even to keep resources from leaving the housing industry is counterproductive. It locks in the misallocated resources. Similarly, restoring macroeconomic health requires the liquidation of many other early stage or long-term investments whose expected profitability depended on artificially low borrowing costs.[69]

Post-Keynesians insist that rising complexity can destabilize economies by veiling information necessary for rational decision-making and by normalizing practices that encourage participants to take on unsound levels of risk. Minsky predicted in 1980 that in future financial crises, "big government will not be as quick nor as able (because of inter-national financial relations) to pour money into the economy, as in 1974–1975."[70] Government has perhaps defied Minsky on the former point by acting with relative speed; with regard to the latter, it has proceeded despite the fact that some would say it is unable to do so in a fiscally responsible way. The problem in addition to the debt load is that bailout arrangements between big government and large financial firms are inevitably political and contribute to a kind of consolidarity in which individuals and smaller firms are often at a significant disadvantage *vis-à-vis* bigger institutions. Government involvement in the private sector also may lead to arrangements in which distinctions between public and private institutions become obscured.

Chesterton offered hope through his assessment that "the monopolist momentum is not irresistible"; the need is to return to social sanity of the kind that can "balance property and control machinery."[71] Christianity, with its emphasis on humility, community, and equitable distribution is indispensable to the construction of a morally and materially sustainable system. We have much wisdom in the economic insights of our faith traditions to help us not only survive this financial turbulence but perhaps emerge from it with a greater sense of wholeness and, in the process, achieve a firmer foundation for economic growth. But there has been lack of discussion concerning religious and moral traditions in the present crisis. Now that the rationality of finance has worked itself into a corner, our solution is to employ more reasoned approaches in extricating ourselves that raise the stakes of success or failure ever higher. Regulation, not ethics, is our present answer. However it was "reason in the void" or, as Chesterton would put it, insanity, that led to this crisis. Sane solutions will address the problems by working to eliminate the void rather than attempting to improve the rational choices within it.

Whatever will be the solution to the present crisis almost certainly will involve a variety of viewpoints because of the complexity and seeming intransigence of present problems and the fact that no one economic school appears to have the answer. The difficulty in establishing a new economic perspective from which to address financial troubles is observed in Thomas Kuhn's work in the philosophy of science and his observation that paradigms, in economics and other sciences, are highly resistant to change.[72] The groping for solutions by policy-makers and scholars to the present crisis has exposed the absence of a definitive, alternative paradigm capable of deposing the neoclassical synthesis. The synthesis remains dominant, for better or worse, "which means that policy-makers will continue to experiment with ad hoc solutions" and "policy-making will remain predictable even if its effectiveness is limited."[73]

The work to begin changing the economic mindset must begin somewhere. The real benefit of revisiting past debates among Austrian, post-Keynesian, and distributist thinkers is in exploring their unique perspectives on financial problems that, collectively, convince us of what we already know: There will be no panacea for present problems. Any valid solution will strike a balance in attempts to restore "truly" free markets, moral virtue among participants, and minimal though effective government oversight. The Austrians are right that unwise government interventions have ripple effects on markets that can last for decades, just as the post-Keynesians are correct that rising sophistication in finance contributes to the potential for economic volatility and the problems associated with it. If the distributists contributed anything, it was recognition that moral decline is often associated with rising sophistication; for with complexity comes indirection, the detachment of owner and property, and confusion over causes and consequences. A wise society understands this inconvenient truth and attempts to account for the fact that virtue is often lost in bigness. If we fail to address the loss of virtue that often accompanies the rise of large and complex institutions, then we will bequeath a moral burden on the next generation as large as the monetary one.

Notes

1. The view has emerged of the post-Keynesians as "fundamentalist" Keynesians in "seeking their inspiration in Keynes' original texts, uncontaminated by the contagion of the neoclassical revival." See Allin Cottrell, "Post-Keynesian Monetary Economics: A Critical Survey," *Cambridge Journal of Economics* 18, no. 6 (December 1994): 587–605. One of my professors, James Sturgeon of the University of Missouri-Kansas City, passed along in one of our class sessions a description of the post-Keynesians as "more Keynesian than Keynes."

2. Minsky described these evolutionary stages of debt as hedge finance, speculative finance, and Ponzi finance. The hedge form is traditional in the sense that institutions contract for present funds with the future obligation to repay principal and interest and full anticipation that short-term revenue streams will cover short-term debt liabilities. Speculative finance is a form of credit where revenues will likely be less than debt obligations in the short-term; hence, Minsky's charge that all fractional reserve commercial banking is speculative. Finally, in Ponzi finance, debt expenses alone eclipse short-term revenue flows, requiring that the organization continually borrow additional funds to remain solvent. For more on Minsky's financial theories, see David L. Prychitko, "Competing Explanations of the Minsky Moment: The Financial Instability Hypothesis in Light of Austrian Theory," *Review of Austrian Economics* 23 (September 2010): 204–8.

3. John P. Cochran, "Capital, Monetary Calculation, and the Trade Cycle: The Importance of Sound Money," *Quarterly Journal of Austrian Economics* 7 (Spring 2004): 17–22.

4. G. K. Chesterton, "The Real Life of the Land," in *The Outline of Sanity*, vol. 5, *The Collected Works of G. K. Chesterton* (San Francisco: Ignatius Press, 1987), 134.

5. Wolfgang Grassl observes that for Austrian social thinkers such as Hayek, "man and his actions stand at the center of economic theory"; therefore, markets are more than institutions "that lead to equilibrium given an efficient allocation of resources. They are rather conceived as a *spontaneous order* that emerges as people, attempting to pursue their own interests, adjust and readjust their own actions to the actions of others." See Grassl, "Markets and Morality: Austrian Perspectives on the Economic Approach to Human Behavior," in *Austrian Economics: Historical and Philosophical Background*, ed. Wolfgang Grassl and Barry Smith (New York: New York University Press, 1986), 171.

6. Nicholas Varcharver and Katie Benner, "The $55 Trillion Question," *Fortune* 158, October 13, 2008, 134–40. An HTML version of this article was accessed by way of EBSCOHost on March 14, 2011, and therefore references will not include page numbers.

7. Douglas McIntyre, "More Quickly Than It Began, the Banking Crisis is Over," *TimeBusiness* (April 10, 2009), accessed October 20, 2010, http://www.time.com/time/business/article/0,8599,1890560,00.html.

8. Bloomberg reported in December 2010 that the five largest US banks reported record two-year investment-banking and trading revenues in 2009–2010, a good portion of which resulted from their fixed-income trading divisions. As an example, Goldman-Sachs reported that in the first quarter of 2010 it made $7.39 billion in investment-banking and trading, more than in the entire year of 2004. These revenue increases received considerable support from the banks' access to approximately $135 billion through the Treasury Department's Trouble Asset Relief Program. See Michael J. Moore, "Wall Street Sees Record Revenue in '09–10 Recovery from Bailout," *Bloomberg*, December 13, 2010, accessed May 14, 2011, http://www.bloomberg.com/news/2010-12-13/wall-street-sees-record-revenue-in-09-10-recovery-from-government-bailout.html.

9. Paul Krugman, "Visions of Business as Usual: Market Mystique Remains Guiding Light for New Regime," *New York Times* (March 27, 2009), A29.

10. Krugman, "Visions of Business as Usual."

11. McCoy, Pavlov, and Wachter provide a comprehensive explanation for the escalation of systemic risk in "Systemic Risk Through Securitization: The Result of Deregulation and Regulatory Failure," *Connecticut Law Review* 41 (May 2009): 1327–76.

12. Catastrophe bonds are also known as "Disaster" or "Act of God" bonds. Congressional Budget Office, *A CBO Study: Federal Insurance for Disasters* (Washington, DC: Government Printing Office, 2002), 44.

13. Quoted in Varcharver and Benner, "The $55 Trillion Question."

14. There has been controversy as to the good and bad of naked CDS contracts, with some analysts suggesting they should be banned altogether and others insisting they provide real benefits to the global economy. Sam Jones, a hedge fund correspondent for *Financial Times*, contends that because European national banks and larger private firms like Deutsche Bank are passing on the purchase of Greek bonds despite the potential of that nation's financial troubles to affect the European Union as a whole, hedge funds with naked CDS positions on Greek debt from months or years ago are today shoring up Greece's bond auctions. See Sam Jones, "The Benefit of Naked CDS," *Financial Times*, March 2, 2011, accessed May 16, 2011, http://ftalphaville.ft.com/blog/2010/03/02/161556/the-benefits-of-naked-cds/.

15. Maureen Nevin Duffy, "Wall Street to Trade Municipal Bonds Like it Trades Mortgages," *Business Insider*, March 2, 2011, accessed March 9, 2011, http://www.businessinsider.com/wall-street-to-trade-municipal-bonds-like-it-trades-mortgages-2011-3.

16. Quoted in Varcharver and Benner, “The $55 Trillion Question.”

17. Varchaver and Benner, “The $55 Trillion Question.”

18. Sergio Mayordomo, Juan Ignacio Peña, and Eduardo S. Schwartz, “Are All Credit Default Swap Databases Equal?” NBER Working Paper Series, *Working Paper 16590* (2010), 4–8.

19. Friedman actually changed his views on deposit insurance over the years. Early on, along with Schwartz, he contended that it was necessary because the Federal Reserve had failed in its central mission and permitted the banking system to collapse. His understanding changed after the United States experienced severe inflation in the 1970s that destroyed businesses’ net worth. Combined with the rise in interest rates that financial proprietors had to pay because of the inflation, the addition of federal depositor insurance, according to Friedman, created a “win-win position for proprietors of those enterprises to engage in risky activities.” See David Levy, “Interview with Milton Friedman,” June 1992, Federal Reserve Bank of Minneapolis, accessed May 14, 2011, http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=3748. See also Milton Friedman and Anna Jacobson Schwartz, *A Monetary History of the United States, 1867–1960* (Princeton, NJ: Princeton University Press, 1963).

20. Charles W. Calomiris, “Banking Crises,” *NBER Reporter* no. 4 (2008): 10–14.

21. Paul Davidson, “Is the Current Financial Distress Caused by the Subprime Mortgage Crisis a Minsky Moment? Or Is It the Result of Attempting to Securitize Illiquid Noncommercial Mortgage Loans?” *Journal of Post Keynesian Economics* (Summer 2008): 674.

22. Davidson, “Current Financial Distress.”

23. Bill Gerrard, “Keynes, the Keynesians, and the Classics: A Suggested Interpretation,” *The Economic Journal* 105 (March 1995): 449; quoted in *New Keynesian Economics/Post Keynesian Alternatives*, ed. Roy J. Rotheim (New York: Routledge, 1998), 2.

24. The difference between Mises and Hayek on socialism has been described as the “calculation debate” and had to do with the fact that for Mises the downfall of the socialist state was the fact that it could never achieve “entrepreneurial foresight” into expected future prices. Hayek, as a “static equilibrium theorist,” believed that even if a central planning institution could somehow come up with a reliable assessment of future prices, it could never account for complexity in production and distribution requirements. For an excellent synopsis of this debate, see Odd J. Stalebrink, “The Hayek and Mises Controversy: Bridging Differences,” *Quarterly Journal of Austrian Economics* 7 (Spring 2004): 27–38.

25. Ancil describes a conversation between Mises and Röpke concerning “public garden plots” in Geneva in which Mises stated that they were “a highly inefficient way of producing foodstuffs!” Röpke responded by saying, “but perhaps a highly efficient way of producing human happiness.” See Ralph E. Ancil, “The Third Way: Wilhelm Roepke’s Vision of Social Order,” *The Intercollegiate Review* (Fall 1986): 36.

26. See Shawn Ritenour’s “Who Is Wilhelm Röpke?” for a brief but excellent synopsis of Röpke’s economic thought, accessed October 20, 2011, http://mises.ch/library/Ritenour_WhoisRoepke.pdf. See also Samuel Gregg, *Wilhelm Röpke’s Political Economy* (Northampton, MA: Elgar, 2010).

27. See Ludwig von Mises, *Human Action: A Treatise on Economics* (Auburn, AL: Ludwig von Mises Institute, 2008 [1949]), 31–35.

28. Edward Collins, “Distributism,” *The Irish Monthly* 72, January 1944, 5.

29. Malcolm York, *Eric Gill: Man of Flesh and Spirit* (New York: Tauris Parke Paperbacks, 2000), 97.

30. Russell Sparkes, “The Distributist Alternative,” accessed October 14, 2011, http://www.secondspring.co.uk/uploads/articles_8_1467315950.pdf.

31. Marvin Goodfriend and Robert G. King describe the original neoclassical synthesis and what has been described as the New Neoclassical Synthesis (NNS) in “The New Neoclassical Synthesis and the Role of Monetary Policy,” *NBER Macroeconomics Annual* 12 (1997): 231–83.

32. Oliver Jean Blanchard, “Neoclassical Synthesis,” *The New Palgrave Dictionary of Economics Online*, 2nd ed. (2008), accessed October 17, 2011, http://www.dictionaryofeconomics.com/article?id=pde2008_N000041.

33. I am indebted to the anonymous reviewers provided by the *Journal of Markets & Morality* for pointing out the omission that for Austrian, post-Keynesian, and distributist thinkers alike, these judgments are moral as much as material distinctions.

34. Philip Arestis, “Post-Keynesian Economics: Towards Coherence,” *Cambridge Journal of Economics* 20, no. 1 (1996): 113–14.

35. Arestis, “Post-Keynesian Economics.”

36. Colin Rogers, *Money, Interest, and Capital: A Study in the Foundations of Monetary Theory* (Cambridge: Cambridge University Press, 1989), 189–92; cited in Arestis, “Post-Keynesian Economics,” 116.

37. Hyman P. Minsky, “Schumpeter and Finance,” in *Market and Institutions in Economic Development: Essays in Honor of Paulo Sylos Labini*, ed. Salvatore Biasco, Alessandra Roncaglia, and Michele Salvati (New York: St. Martin Press, 1993), 106.

38. J. M. Keynes, "The Consequences to the Banks of the Collapse of Money Value," in *The Collected Writings of John Maynard Keynes*, vol. 9, *Essays in Persuasion* (New York: Macmillan, 1971), 151.

39. Luiz Carlos Bresser-Pereira, "The Global Financial Crisis and a New Capitalism?" *Journal of Post Keynesian Economics* 32 (Summer 2010): 504, 504n5.

40. Bresser-Pereira, "Global Financial Crisis," 525.

41. John T. Harvey, "Modeling Financial Crises: A Schematic Approach," *Journal of Post Keynesian Economics* 33 (Fall 2010): 62.

42. Harvey, "Modeling Financial Crises."

43. Harvey, "Modeling Financial Crises," 68–69.

44. John Marangos, "The Post Keynesian Retort to the 'After Washington Consensus,'" (paper presented at the Sixteenth Workshop on Alternative Economic Policy in Europe, The University of Crete, 2010), accessed May 21, 2011, http://www2.euromemorandum.eu/uploads/wg2_marangos_after_the_washington_consensus.pdf.

45. Frank Shostak, "Does the Current Financial Crisis Vindicate the Economics of Hyman Minsky?" *Mises Daily*, November 27, 2007, accessed March 2, 2011, http://mises.org/daily/2787.

46. Shostak, "Current Financial Crisis."

47. Jerry H. Tempelman, "Austrian Business Cycle Theory and the Global Financial Crisis: Confessions of a Mainstream Economist," *Quarterly Journal of Austrian Economics* 13 (Spring 2010): 4.

48. Ludwig von Mises, *The Theory of Money and Credit* (Ludwig von Mises Institute, 2009 [1912]), 200.

49. Mises, *Theory of Money and Credit*, 212.

50. Mises, *Theory of Money and Credit*, 213.

51. David Howden, "Knowledge Shifts and the Business Cycle: When Boom Turns to Bust," *Review of Austrian Economics* 23 (June 2010): 167.

52. Howden, "Knowledge Shifts and the Business Cycle," 168.

53. William R. White, "Is Price Stability Enough?" in *BIS Working Papers No. 205* (Basel: Bank for International Settlements), accessed March 29, 2010, http://www.bis.org. Quoted in Tempelman, "Austrian Business Cycle Theory," 5.

54. Tempelman, "Austrian Business Cycle Theory," 6.

55. Mark Thornton, "Housing: Too Good to Be True," *Mises Daily*, June 4, 2004, accessed May 16, 2011, http://mises.org/daily/1533.

56. Thornton, "Housing."
57. G. K. Chesterton, quotation taken from the debate with Bertrand Russell in 1935; located at *The Distributist Review*, "Economics for Everyone," accessed April 10, 2010, http://distributism.blogspot.com/2009/10/economics-for-everyone.html.
58. G. K. Chesterton, *The Scandal of Father Brown*, The Collected Works of G. K. Chesterton, ed. George J. Marlin et al. (San Francisco: Ignatius Press, 1986), 13:475.
59. G. K. Chesterton, "Summary," in *The Outline of Sanity*, The Collected Works of G. K. Chesterton (San Francisco: Ignatius Press, 1987), 5:199.
60. Martin Wolf, "Ireland Needs Help with Its Debt," *Financial Times*, February 23, 2011, 9.
61. Wolf, "Ireland Needs Help," 9.
62. Robert J. Samuelson, "In Ireland's Debt, an Ominous Reckoning for Europe," *Washington Post*, November 29, accessed March 7, 2011, http://www.washingtonpost.com/wp-dyn/content/article/2010/11/28/AR2010112802910.html.
63. Wolf, "Ireland Needs Help," 9.
64. G. K. Chesterton, "The Real Life of the Land," in *The Outline of Sanity*, 137.
65. G. K. Chesterton, "On Direct Action," *G. K.'s Weekly* (July 7, 1928): 263.
66. G. K. Chesterton, "On Direct Action," 263.
67. G. K. Chesterton, "The Maniac," in *Orthodoxy*, The Collected Works of G. K. Chesterton, ed. George J. Marlin et al. (San Francisco: Ignatius Press, 1986), 1:230.
68. G. K. Chesterton, "A Case in Point," in *The Outline of Sanity*, 103.
69. Roger W. Garrison, "Mainstream Macro in an Austrian Nutshell," *The Freeman* 59 (May 2009), accessed October 17, 2011, http://www.thefreemanonline.org/featured/mainstream-macro-in-an-austrian-nutshell/.
70. Minsky, "Capitalist Financial Processes and the Instability of Capitalism," *Journal of Economic Issues* 14 (June 1980): 520.
71. G. K. Chesterton, "A Misunderstanding About Method," in *The Outline of Sanity*, 93.
72. Oxford Analytica, "International: Global Crisis Fails to End Paradigm," *OxResearch Daily Brief Service*, January 6, 2011, 2, accessed October 17, 2011, http://relooney.fatcow.com/SI_FAO-LA/0_Important_LA_46.pdf.
73. Analytica, "International," *OxResearch Daily Brief Service*, 3.