DEBUNKING ECONOMICS: THE NAKED EMPEROR DETHRONED?, by Steve Keen, New York, NY: Zed Books, 2011. 554 pp.; ISBN-13: 978-1848139923.

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It was Queen Elizabeth who asked the big question in the aftermath of the financial crisis, during a visit to the London School of Economics – why did nobody see it coming? Many of the world's most distinguished economists took up the challenge, with varying degrees of success. The basic answer was that they could not possibly have known. There was nothing in their experience or theories to prepare them for a freak event like the fall of Lehman Brothers. John Kay, writing in the *Financial Times*, sums up the approach, as well as an appropriate response: "Robert Lucas, professor of economics at the University of Chicago and Nobel Prize winner for his seminal contributions to macroeconomics, proffered an answer in 2009. The crisis was not predicted, he explained, because economic theory predicts that such events cannot be predicted. Faced with that response, a wise sovereign will seek counsel elsewhere" (Kay 2011). The point is that these economists *should* have seen the crisis coming, since the data and the lessons of history were clear for anyone who cared to look. The fact that they did not reflects the sorry state of mainstream economics.

One of the few economists who did predict the crisis, Australian academic Steve Keen, has just launched a revised second edition of his 2001 book *Debunking Economics: The Naked Emperor Dethroned?* Much more than simply explaining the causes of the crisis, Keen takes us through a thorough dissection of mainstream neoclassical economics, and the result does not leave the discipline looking in good shape. He explains in detail how the very foundations of neoclassical economics are based on faulty logic and insufficient – if any – consideration of what actually goes on in the real world. At every stage, despite knowing fully well the flaws in their theories, the leading lights of the discipline simply assumed away any 'inconvenient truths'. So, erroneous concepts passed down through generations of economics students, with objections relegated to obscure footnotes. Milton Friedman even went so far as to assert that assumptions do not matter at all, a claim that Keen carefully examines and refutes. The end result is a field dominated by largely irrelevant theories and functioning in something of a parallel universe, bearing hardly any resemblance to the one in which we actually live. One gets the feeling of an isolated community, doctrinally rigid and impervious to new ideas, not unlike the theologians of the medieval church. As Keynes wrote, "I remember Bonar Law's mingled rage and perplexity in face of the economists, because they were denying what was obvious. He was deeply troubled for an explanation. One recurs to the analogy between the sway of the classical school of economic theory and that of certain religions. For it is a far greater exercise of the potency of an idea to exorcise the obvious than to introduce into men's common notions the recondite and the remote" (Keynes 1936, 350).

Even what is taught as Keynesian economics is really a sanitized version that was put together by Sir John Hicks, who stripped away Keynes' most salient insights. An absolute faith in equilibrium lies at the heart of the neoclassical approach. If you are convinced that markets always function in equilibrium then the idea of any sudden reversal is hard to conceive. If we live in the best of all possible worlds, how can there be a crisis? The problem is that the real world is a rather more complicated place, where not much moves in simple straight lines and where there is no evidence that markets smoothly and instantaneously glide between states of equilibrium. Fortunately, there are other visions, though a full-blooded alternative to the neoclassical school has yet to emerge. Keen is most sympathetic to the post-Keynesians, and follows an interpretation of Keynes that is more faithful to his original ideas. Keen's understanding of how the economy works is also influenced greatly by the late Hyman Minsky, and he attributes the level of overall debt as the main cause of the crisis. It was when he examined the level of private debt in major world economies that Keen saw trouble on the horizon, at a time when most economists were still toasting the 'Great Moderation'. Moreover, the overall levels of debt in western economies just before the crisis far exceeded what preceded the Great Depression. Until we sort out this problem of private debt in the economy, spending and demand will continue to be subdued, the hard times will drag on, and we are heading for a couple of Japanese-style lost decades. Unless households and firms are relieved of the debt burden, simply printing money and transferring it onto bank balance sheets is not going to work. Keen favors a Jubilee, or *en masse* forgiveness of debt. The challenge of devising a way to achieve this while at the same time reframing the debate on the economy is one for policy makers to ponder.

Our contemporary world remains in the grip of an economic paradigm that has clearly not worked and which has wreaked havoc on our lives and on our planet. Yet the challenge of building an intellectually robust and convincing alternative is still very much a minority activity. While a great deal has already been achieved in developing alternative modes of thought in economics, much more still needs to be done, especially in communicating new ideas and demolishing the old edifice of neoclassical theory. This involves not only reforming the way economics is taught in universities but also communicating new thinking to a wider audience, which needs to see that there is an alternative. And Steve Keen's book is a huge step in that direction.

## ***References***

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