

REPLY TO EICHENGREEN

Barry Eichengreen is justified in criticizing me for ignoring the recent literature in economic theory and for failing to identify the thinkers whose writings have influenced me.

I only wish, however, that he were right in minimizing the influence of market fundamentalism. Our congressmen seem to be even less familiar with the recent economic literature than I am. The International Financial Institutions Advisory Commission mandated by Congress has recommended a drastic downsizing of international financial institutions. The Commission recommends that the International Monetary Fund be converted into a quasi-lender of last resort, but only to *those countries that open up their financial systems to foreign competition*. The underlying argument is that the international provision of capital should be left to the markets. I see very little recognition here that international financial markets are inherently unstable. The emphasis is on eliminating the moral hazard created by IMF bailouts.

In my view, the invocation of moral hazard is a product of market fundamentalism. It means that there should be no interference with market discipline. But if markets are unstable, imposing market discipline means imposing instability, and how much instability can emerging market economies put up with? I propose replacing “End moral hazard” with another slogan: “Create a more level playing field.” That is what my various proposals seek to accomplish.

I acknowledge that second-generation financial-crisis models deal with reflexive phenomena, but I consider Eichengreen's expression "multiple equilibria" a misnomer; "dynamic disequilibrium" would be more appropriate. Congressmen might sit up and pay attention to such terminology.

Contrary to what Eichengreen says, I do not wish to use the theory of reflexivity to explain too much; I use it to explain why financial markets and historical processes in general are genuinely indeterminate and why explanations of them cannot meet the criteria imposed by equilibrium theory.

He is right, however, in implying that I overused my boom/bust model. I found his critique helpful. I hope to have made my position clearer in my new book *Open Society: Reforming Global Capitalism*.