

Financial crises are a commonplace occurrence in capitalist economies, but why did the latest episode almost derail the world economy? The macroeconomics developed by John Maynard Keynes and his close followers provides the only plausible set of answers. Professor Lance Taylor argues in his new forthcoming book that the causes of the US-led global crisis were driven by several inter-related factors, including: rising income inequality and low real interest rates which spilled over into housing bubbles, unsustainable growth of household consumption and debt accumulation; an unfettered expansion of financial assets and liabilities in a context of deregulated financial markets and self-inflating asset price bubbles; and seemingly unrestricted supply of imports and capital inflows from the rest of the world. As much as Keynes' writings helped connect the dots to understand the Great Depression of the 1930s, the same writings provide the key insights to understand the causes of the Great Recession of 2008-2009 better than any other modern economic thinking that prevailed in the decades before the most recent crisis.