



*The discussion on the economic consequences of 2009, on the potential shape of the post-crisis world, and on the “winners of the crisis”, began in a special Russian Institute Newsletter devoted to the Russian President’s Yaroslavl initiative and found a response among Western intellectuals. RJ returns to this topic, giving the floor to Martin Wolf – a renowned British economist, chief economic observer of The Financial Times, Professor of Nottingham University and the Emeritus Doctor of the London School of Economics – permanent member of the rating “Leading intellectuals of the world.”*

## KEYNESIAN ECONOMICS WAS VINDICATED BY THE CRISIS

---

Martin Wolf

---

What changes did the economies of developed countries undergo in 2009? This is a very difficult question. My answer is as follows.

Firstly, developed countries went into recession, from which they mostly began to emerge in the third quarter of the year, but it is far too soon to know what structural changes they have undergone. It is likely that the level and rate of economic growth and unemployment will be negatively affected for a long time to come. It is also likely that the size of the financial sector will also be negatively affected for a similarly long time.

Secondly, the best measure of the gap between countries is GDP per capita, at purchasing power parity. And this gap is now more or less the same size after the recession as it was before it. Only China and India are growing much faster than the developed countries on what seems to be a sustainable basis.

Thirdly, **the crisis ought to have adversely affected the ‘right’ more than the ‘left’, but that has not been the case.** The truth is that both sides shared a pro-market agenda – so neither has been able to propose a credible alternative. **The ‘left’ (Democrats) won in the US, while the ‘right’ (CDU/CSU/Free Democrats) won in Germany.** Nobody seems to



have yet forged a new set of beliefs about how the state and the market should relate to one another. Maybe the reason is that the crisis showed that markets need more regulation, but also that states are enormously fiscally overstretched.

\* \* \*

I don’t think anybody benefited from the crisis. The state is now overburdened. The free market looks highly unstable. And big financial businesses look incompetent, if not downright corrupt. The likelihood is that we are going to move to another set of compromises, with more regulation of finance than before, but no reversal toward left-wing ideologies. Few believe that the state has all

the answers. **Maybe this should be called “the age of disillusionment”.**

If we talk about the current feelings and expectations, I think the general attitude is one of relief that the outcome was not worse, coupled with wariness about the future. **The general attitude in developed countries is one of extreme uncertainty – and rightly so in my view.**

In terms of the views and positions of expert groups, the alarmists clearly won the argument over the advent of the crisis but the optimists won the argument over what was to be done. **Keynesian economics was vindicated.**

It is not clear to me that the role of public intellectuals is different from what it was 30 or 40 years ago, but it probably does not compare with how it was in the 1920s and 1930s. The reason, I think, is that the West seems to be intellectually exhausted – and so, in truth, does the world. It is too early to tell what elements of intellectual life succeeded in 2009. If there were fundamentally new ideas, I am unaware of them.

In the short term, China benefited most from the crisis. In the longer term, however, Chinese growth looks to me more vulnerable. It is unclear whether pre-crisis growth patterns can be repeated. China has become very dependent on extreme credit and investment growth. ■

Issue Editor  
Nikita Kurkin

Executive Editor  
Valentina Bykova

Design  
Sergey Ilnitsky

Page proofs  
Gleb Shuklin

Additional contributors  
Boris Volkhonsky, Anna Lebedeva, Yulia Netesova, Elena Penskaya, Konstantin Arshin,  
Liubov Ulianova  
Project director: Alexander Shpunt