International Political Economy Series

Globalized Finance and Varieties of Capitalism

Hans van Zon

International Political Economy Series

Series Editor: **Timothy M. Shaw**, Visiting Professor, University of Massachusetts Boston, USA and Emeritus Professor, University of London, UK

The global political economy is in flux as a series of cumulative crises impacts its organization and governance. The IPE series has tracked its development in both analysis and structure over the last three decades. It has always had a concentration on the global South. Now the South increasingly challenges the North as the centre of development, also reflected in a growing number of submissions and publications on indebted Eurozone economies in Southern Europe.

An indispensable resource for scholars and researchers, the series examines a variety of capitalisms and connections by focusing on emerging economies, companies and sectors, debates and policies. It informs diverse policy communities as the established trans-Atlantic North declines and 'the rest', especially the BRICS, rise.

David Begg
IRELAND, SMALL OPEN ECONOMIES AND EUROPEAN INTEGRATION
Lost in Transition

Steen Fryba Christensen and Li Xing (*editors*)
EMERGING POWERS, EMERGING MARKETS, EMERGING SOCIETIES
Global Responses

Wayne Hope
TIME, COMMUNICATION AND GLOBAL CAPITALISM

Tim di Muzio and Jesse Salah Ovadia (*editors*)
ENERGY, CAPITALISM AND WORLD ORDER
Toward a New Agenda in International Political Economy

Maureen Mackintosh, Geoffrey Banda, Paula Tibandebage and
Watu Wamae (*editors*)
MAKING MEDICINES IN AFRICA
The Political Economy of Industrializing for Local Health

Eris D. Schoburgh, John Martin and Sonia Gatchair (*editors*)
DEVELOPMENTAL LOCAL GOVERNANCE
A Critical Discourse in 'Alternative Development'

Jessica Chia-yueh Liao
DEVELOPMENTAL STATES AND BUSINESS ACTIVISM
East Asia's Trade Dispute Settlements

Richard Münch
THE GLOBAL DIVISION OF LABOUR
Development and Inequality in World Society

Jakub M. Godzimirski
EU LEADERSHIP IN ENERGY AND ENVIRONMENTAL GOVERNANCE
Global and Local Challenges and Responses

Md Saidul Islam and Md Ismail Hossain
SOCIAL JUSTICE IN THE GLOBALIZATION OF PRODUCTION
Labor, Gender, and the Environment Nexus

Geoffrey Allen Pigman
TRADE DIPLOMACY TRANSFORMED
Why Trade Matters for Global Prosperity

Kristian Coates Ulrichsen
THE GULF STATES IN INTERNATIONAL POLITICAL ECONOMY

Eleonora Poli
ANTITRUST INSTITUTIONS AND POLICIES IN THE GLOBALISING ECONOMY

Andrea C. Simonelli
GOVERNING CLIMATE INDUCED MIGRATION AND DISPLACEMENT
IGO Expansions and Global Policy Implications

Victoria Higgins
ALLIANCE CAPITALISM, INNOVATION AND THE CHINESE STATE
The Global Wireless Sector

Andrei V. Belyi
TRANSNATIONAL GAS MARKETS AND EURO-RUSSIAN ENERGY RELATIONS

Silvia Pepino
SOVEREIGN RISK AND FINANCIAL CRISIS
The International Political Economy of the Eurozone

Ryan David Kiggins (*editor*)
THE POLITICAL ECONOMY OF RARE EARTH ELEMENTS
Rising Powers and Technological Change

Seán Ó Riain, Felix Behling, Rossella Ciccia and Eoin Flaherty (*editors*)
THE CHANGING WORLDS AND WORKPLACES OF CAPITALISM

Alexander Korolev and Jing Huang
INTERNATIONAL COOPERATION IN THE DEVELOPMENT OF RUSSIA'S FAR EAST AND SIBERIA

Roman Goldbach
GLOBAL GOVERNANCE AND REGULATORY FAILURE
The Political Economy of Banking

Kate Ervine and Gavin Fridell (*editors*)
BEYOND FREE TRADE
Alternative Approaches to Trade, Politics and Power

International Political Economy Series
Series Standing Order ISBN 978–0–333–71708–0 hardcover
Series Standing Order ISBN 978–0–333–71110–1 paperback

You can receive future titles in this series as they are published by placing a standing order. Please contact your bookseller or, in case of difficulty, write to us at the address below with your name and address, the title of the series and one of the ISBNs quoted above.

Customer Services Department, Macmillan Distribution Ltd, Houndmills, Basingstoke, Hampshire RG21 6XS, England

Globalized Finance and Varieties of Capitalism

Hans van Zon
Professor Emeritus, University of Sunderland, UK

palgrave
macmillan

GLOBALIZED FINANCE AND VARIETIES OF CAPITALISM

Softcover reprint of the hardcover 1st edition 2016 978-1-137-56026-1

First published 2016 by
PALGRAVE MACMILLAN

Palgrave Macmillan in the UK is an imprint of Macmillan Publishers Limited, registered in England, company number 785998, of Houndmills, Basingstoke, Hampshire, RG21 6XS.

Palgrave Macmillan in the US is a division of Nature America, Inc., One New York Plaza, Suite 4500 New York, NY 10004–1562.

Palgrave Macmillan is the global academic imprint of the above companies and has companies and representatives throughout the world.

ISBN 978-1-349-71953-2
E-PDF ISBN: 978–1–137–56027–8
DOI: 10.1057/9781137560278

Library of Congress Cataloging-in-Publication Data is available from the Library of Congress

A catalog record for this book is available from the Library of Congress

A catalogue record for the book is available from the British Library

For Reza and Sarah

This page intentionally left blank

Contents

List of Illustrations

Figures

Tables

Acknowledgments

I would like to thank Tony Charles, Eddie Lawler, Jos van Dijk, HenkOverbeek, Kees van der Pijl and anonymous referees for commenting on draft versions of this book.

List of Abbreviations

BIS	Bank for International Settlements
BRICS	Brazil, Russia, India, China and South Africa
CDS	Credit Default Swap
CEO	Chief Executive Officer
ECB	European Central Bank
ESM	European Stability Mechanism
FDI	Foreign Direct Investment
Fed	Federal Reserve
GIPSI	Greece, Italy, Portugal, Spain, Ireland
ILO	International Labour Organization
IMF	International Monetary Fund
LTCM	Long-Term Capital Management
NAFTA	North American Free Trade Agreement
OECD	Organisation for Economic Cooperation and Development
repo	repurchase agreement
SEC	Securities and Exchange Commission
SME	Small and Medium Sized Enterprises
TARP	Troubled Assets Relief Program
TNC	transnational corporation
TTIP	Trans-Atlantic Trade and Investment Partnership
VAR	Value at Risk
WB	World Bank
WTO	World Trade Organization

Introduction

In September 2008 the bankruptcy of Lehman Brothers came as a complete surprise, as was the fact that the financial system was on the verge of implosion. Media, economists and politicians failed to notice the biggest asset bubble in history, the toxic brew of sub-prime mortgages and financial derivatives based on them and the extent of fraud in an outsized and overleveraged financial system.

The panic engulfed the whole North Atlantic region as it appeared the financial system there was so interconnected that a system of mutually assured destruction had emerged. The bankruptcy of one major bank could trigger an international chain reaction and bring about a collapse of the entire international financial system. How could the financial system spin so much out of control?

Since 2008, large banks all across the North Atlantic countries have become even bigger and more influential. The bonuses of bankers achieved already shortly after 2008 pre-crisis levels while their risky behavior has not diminished. This risky behavior is manifested in the explosion of bank fraud since 2008. Many big banks have been bailed out, but a lot of them appear to be 'zombie banks' that would be loss making without government support. Trade in financial derivatives, at the root of the crisis, is on a higher level than in 2008 and still scarcely regulated. The growing shadow banking system is also not regulated while tax havens have grown even more. Although the financial crisis triggered an economic crisis across the North Atlantic region, very little has been done to rein in the financial sector. The sources of financial instability have not been removed, and the chance of a repeat of 2008, or even worse, is very great. Moreover, economic stagnation has gripped developed capitalism since 2008, bringing high levels of unemployment. As far as there was economic growth, only the very few benefited.

Is developed capitalism entering a period of long-term stagnation? Is casino capitalism here to stay? Does there 'come a point, one that many advanced economies passed long ago, where more banking and more credit are associated with lower growth?' (*The Economist*, 11 May 2013; see also IMF, 2012, p. 22). New in the history of capitalism is that in many developed capitalist countries almost all economic sectors have become heavily indebted, which gives extraordinary power to creditors. Global debt markets have even increased by 30 per cent since 2008, to attain $100 trillion by 2013. Has the relation between finance and the real economy entered into a qualitatively new phase? Is the present political economy, based on neoliberal assumptions, sustainable? Is the situation in Japan very different? Do present economic policies inaugurate the beginning of the end of neoliberalism?

The financial crisis in the West cannot be analyzed in isolation from the global financial system. During the past 30 years, a new global financial architecture has emerged based on liberalization of capital accounts and a web of booming tax havens. Hot money flows have exploded while creating volatility. An offshore capitalism also has emerged, allowing financial institutions, multinationals and wealthy individuals to operate in an institutional no-man's land. Banks can increase their leverage and obscure their books, partly through offshore vehicles. A global casino facilitates not only tax evasion, but also fraud and other illegal activities. The liberalizing of capital flows across the world has enabled capital, through global wage and regulatory arbitrage, to increasingly free itself from national restrictions. This situation has broken the profit–investment nexus. Tax evasion has undermined the tax base of governments everywhere and pushed them to shift tax burdens onto the population at large.

During the first three post–World War II decades, a variety of capitalism unfolded in the context of the stability that the Bretton Woods system provided. Capital was restrained in manifold ways, while the variety of capitalism was rooted in national cultures and histories. It was the golden age of national capitalism, with restrictions for capital flowing across borders. In a number of developed capitalist countries, a welfare state could emerge. During the past decades this variety of capitalism has been undermined by the pressure of global market forces.

Globalization and international financial integration provided an external push for further opening up and financialization. But to what extent have responses to external pressures differed across developed capitalism? Financial depth and the degree of international financial integration is still very uneven. What was the differentiated impact of financialization, globalization and financial shocks upon various developed capitalist countries? On the one hand, there is the increasingly autonomous realm of global finance that altered the underlying logic of advanced capitalist economies and, on the other hand, there is the role of endogenous forces that resist neoliberal change. In this book the distinct geography of financialization is explored, showing vastly different responses to external challenges. It shows what is left of the variety of capitalism, and answers the question: To what extent has the marketization drive, as far as it has occurred, improved economic performance? Changes in the variety of financial systems are analyzed.

Cross-border financial integration proceeded most rapidly in the eurozone, where the dangers of this process have been revealed most dramatically. In the eurozone, banks have the freedom to create cross-border bubbles without any restrictions. The straitjacket of the euro worsened the crisis, denying governments an independent monetary policy. The euro crisis shows the dangers of international financial integration without proper safeguards. Here, the dangers of complete freedom of financial capital are obvious: external imbalances in the private sphere, and indebtedness that pushes countries into submission and economic decline. Negative integration prevails in the EU, expanding the freedom for capital.

Another question is: To what extent has financial globalization affected US hegemony? The new global financial architecture has been furthered very much by the United States. Global financial services have become increasingly concentrated in New York and London. The thriving network of tax havens centered around New York and London were part of a drainage system to suck money from all corners of the world into the big global banks. In this system, the United States was absorbing a large part of the world's savings, helped by the role of the dollar as the global currency. A new form of financial imperialism emerged. In this context, the question emerges: What is the relationship between corporate and financial globalization? Financial globalization also created more volatility and risk, resulting in more-frequent financial crises – first in the Global South, then in the North. Recently, the super abundance of capital – partly produced by quantitative easing in developed capitalist countries and by unprecedented low interest rates – led to more risky investments, producing new bubbles and more volatility.

A historical new situation emerged in the sense that until recently, the core of the capitalist system resided in the West and always showed the most dynamism. Now the core of the capitalist world economy seems to be rotten. Does it portend the end of the leading role of the West? Can the dollar survive as the global currency? To what extent is the current economic stagnation in developed capitalism linked to US hegemony?

Transformations in the variety of capitalism during the past decades pose many questions about the nature of contemporary capitalism and the destabilizing role of the financial sector. To what extent must economic actors be constrained, and what should be the role of the national government? How can the state shield itself against disturbing influences from abroad, especially from international financial markets? Given the enormous power of the financial sector, how can it finally be reined in? A comparative analysis of the variety of capitalism might provide some of the answers.

1
The United States: Casino Capitalism Unleashed

The shareholders' revolution

The Great Depression of the 1930s convinced the US political elite that the economy needed to be properly regulated in order to prosper. The Depression stands out because of its depth and the fact that the whole capitalist world was affected. It occurred after a period of deregulation of the financial sector and creation of cheap money (quantitative easing) that pushed bubbles, and in the United States led to unemployment levels of 27 per cent (1933).[1] A third of all banks failed, and credit provision came to a halt.

Output in the United States between 1929 and 1933 contracted by 46 per cent, and world trade by two thirds while a new wave of protectionism inhibited trade. Initially, counterproductive policies were pursued that included cutting state expenditures that in turn exacerbated the crisis. A breakthrough occurred with the New Deal of President Roosevelt, who created jobs by massively investing in infrastructure and education.· Later, the government backtracked, with the result of deepening the crisis. Only with the massive state spending on armaments during World War II did the economy start to grow again. During the last years before the war, per capita GDP was 25 per cent lower than in 1846, but by1945 the United States had approximately a 60 per cent share of the world's industrial production.

The boom of the 1950s and 1960s was built upon: (1) consumer liquidity, (2) the second great wave of automotive production, (3) a period of cheap energy, (4) the rebuilding of Europe and Japan, (5) two regional wars in Asia and (6) US hegemony (Foster, 2012). The federal government pursued redistributive policies. For example, during 1945–80 the top tax rate was more than 70 per cent, and the capital gains tax was 35 per cent (in 2015, 15 per cent).

In the United States during the 1970s many interest groups opposing the perceived trends towards the welfare state and 'socialism', stagnating production and lower profit rates, started to converge, and a countermovement took shape.[2] As a result of a regrouping of corporate interests, corporate lobbying exploded. Wealthy donors founded conservative think tanks to influence public opinion in favor of market fundamentalism. The Ford Administration of the mid-1970s began a deregulation campaign. A new consensus emerged between the conservative right and liberal left to contain inflation, which attained almost 6 per cent in 1970 and double digits in 1974, while 'staying away from the aggressive interventionism that started under Kennedy' (Greenspan, 2007, p. 72). During the 1980s, under the presidency of Ronald Reagan (1980–88), a managerial/capitalist counterrevolution took place that quickly shifted the balance of power in the direction of big corporations. It had unified support from the ruling elites. According to Schlesinger (1999, p. 21), the Reagan attack on affirmative government was

> the sharpest and shrewdest mounted (in the USA) in the twentieth century. (...)
>
> Like his conservative predecessors, Reagan aimed to shrink the role of government. Unlike the others, he discovered a way to do it. His innovation was to use tax reduction and defense spending to create a vast budgetary deficit and then to use the deficit as a pretext for a permanent reduction in the functions of the national government.[3]

Above all the tax bill for the rich was reduced.

Shareholders emerged as the moving force in corporate affairs. A key idea was that the sole function of enterprises is to enhance value for their shareholders. During the 1970s, share ownership began to shift from individuals to large institutional investors such as pension funds. The feeling emerged that corporations paid too little attention to the shareholders' interests. Economists and shareholders joined in an attempt to restore property rights of shareholders. This led to a shareholder-value revolution. It resulted in an enormous wealth transfer from enterprises to shareholders during the following decades. The typical American firm is nowadays owned by shareholders who are only interested in short-term profit.

Immediately upon entering office (1980) President Reagan embraced monetarism – the idea that by influencing the money supply one can steer the economy. The Federal Reserve chairman, Paul Volcker, had already in 1980 (during the Carter Administration) started raising interest rates. He raised the federal funds rate, which had averaged 11.2 per cent in 1979, to a high of 20 per cent in June 1981. Inflation, which peaked at 13.5 per cent in 1981, was successfully lowered to 3.2 per cent by 1983.

President Reagan also implemented ‘supply-side economics’, a code word for reducing all impediments to capital accumulation. He immediately lowered taxes and organized a frontal attack on trade-union power. When, on 5 August 1981, at the height of the vacation season, 13,000 air traffic controllers walked out, causing 7,000 flights to be cancelled daily, Reagan fired all striking controllers, imposing a lifelong ban on rehiring them.

Long before the 1980s, the American financial system was already under pressure. The system that emerged after the New Deal was highly compartmentalized, with distinct institutions serving discrete functions and protected from direct competition with one another. Credit was scarce and rationed. The economy was far from a typical liberal market economy, as portrayed in economic text books. The financial sector was divided into diverse interest groups that found it difficult to rally behind a unified agenda (Krippner, 2011, p. 60). Politicians played a prominent role in the allocation of capital through the regulation of the financial sector. Especially during the 1970s, cracks appeared in this system due to huge pressures to find capital. For example, thrifts that financed home-buying managed to repackage mortgages and sell them as mortgage-backed securities in order to expand their capital base (Krippner, 2011, p. 63). An important step was the abolition of fixed rates for brokerage commissions on Wall Street – rates that had made trade (and speculation) in stocks much cheaper (1975).

Under the presidency of Reagan, deregulation of finance accelerated, which increased financial volatility that made financial crises more frequent. The 1980s was also the decade of a leveraged buy-out boom. Debt-financed takeovers were fueling stock prices. The result was ‘Black Monday’, 19 October 1987, when stock markets crashed (the Dow declined almost 23 per cent in one day). A disaster was narrowly avoided by the Fed, which promised a safety net for banks (by serving as a source of liquidity) and convinced them to continue lending (Ferguson, 2008, p. 166). Earlier, in dealing with the Latin American debt crisis, the United States had pushed the International Monetary Fund (IMF) to protect creditors (above all US banks lending to Latin America) at any cost. Volcker told the Federal Open Market Committee that the United

States should be ready to bail out banks 'too big to fail' (Panitch and Gindin, 2014, p. 179). Gradually, banks became convinced that it was worthwhile to take more risks, because the Fed (or the IMF) was always there to assist.

Deregulation also resulted in increased fraud. By the late 1980s, 747 out of the 3,234 savings and loan associations (S&Ls), institutions that could accept deposits and give mortgages) went bankrupt. By 1987 these institutions had $1.5 trillion in assets (Greenspan, 2007, p. 114). A lot of money had been stolen,and the debacle cost taxpayers initially $124.6 billion (Lanchaster, 2010, p. 222); 326 S&L executives went to jail.

President Reagan also allowed current account deficits to boom. The liberalization of capital accounts in the rest of the world, coupled with high interest rates in the United States with the Volcker shock, enabled a rapid increase of capital inflows that neutralized the current account deficits (see Figure 1.3). Under Reagan, the process started in which the United States was transformed from the world's leading creditor to become the world's leading debtor. Concomitantly, investment and savings ratios in the United States went down. In the 1970s Americans saved almost 10per cent of their income, slightly more than in the 1960s. It was after the Reagan deregulation that thrift gradually disappeared from the American way of life. Also, government deficits started to rise, financed with Treasury paper that was increasingly sold to foreigners. At the start of the Reagan Administration the budget deficit was $700 billion, at the end,$2 trillion (Greenspan, 2007, p. 102). As J.K. Galbraith noted in an interview for *The Progressive* (October 2000), American society became 'privately rich but publicly poor'.

The transformation of finance

Deregulation of finance under President Clinton

President Clinton (1992–2000) considered deregulation of the financial sector as a substitute for social policy. Under his presidency, mortgage lenders were pushed by the federal government to lend to subprime mortgage lenders with the aim of bringing affordable housing to the poor. At the same time social expenditures were cut. To allow the poor to borrow, interest rates should be low. According to Scheer (2010, p. 100), in the first year of his presidency, Clinton made an informal deal with Fed Chairman Alan Greenspan: if the Fed kept interest rates low, the president would reciprocate with financial-market deregulation. The Glass-Steagall Act that separated commercial from investment banking, was repealed, to be replaced by the Financial Services Modernization Act (signed by Clinton in 1999 and passed in 2000), which opened the door for banks to speculate with the customer's money. Among others, financial derivatives escaped regulation. This allowed a boom of fraudulent financial derivatives. Politicians and civil servants who protested against fraudulent practices were intimidated and/or fired. The fates of two companies, Long Term Capital Management (LTCM) and Enron are exemplary.

LTCM was a hedge fund founded in 1994 by, among others, Nobel Prize winners Scholes and Merton (awarded 1997). In 1998 it had assets of only $6.7 billion but liabilities of $126.4 billion. Financial derivatives amplified the possibility of bankruptcy. After the Russian default (1998), leverage increased to 42:1, and in order to avoid collapse LTCM needed a New York Fed brokered bail-out of $3.6 billion, from 14 Wall Street banks. This hedge fund had placed massive bets on interest derivatives. The rescue was organized by the Fed under very opaque conditions.[4] Again, the problem of 'moral hazard'emerged.

Enron developed from an energy producer and deliverer to a trading company that was making bets on the rise and fall of the very energy prices it was manipulating. Enron was involved in Congress's adoption of a law that would exempt from regulation the energy trade that Enron, itself, was conducting (Lanchaster, 2010, p. 220). For six years Enron was proclaimed by *Fortune* magazine as the most innovative company in the United States. In December 2001, Enron went bankrupt, with $20 billion in the red. It had formed thousands of subsidiaries in order to avoid taxation and obscure the books.

Generally, volatility on financial markets increased. This already had become visible in 1994, when the bond markets collapsed and knocked off $600 billion from the value of US securities.

The 1990s stood also out because the globalization bonanza started and enterprises began to massively undertake off-shore production. Deregulation and globalization helped to enable the longest postwar US economic boom. This prolonged boom confirmed policymakers in the rightness of their economic policy.

The 2000s

In 2001 the 'dotcom bubble' burst. Because of the hype around new technologies, large sums of money had been poured into startup firms, but with nothing to show for it.[5] The Fed had the idea that the exuberance of that bubble could be counteracted by enabling other bubbles to emerge, such as the housing bubble. Initially, the strategy worked. In

2001 the Fed started lowering interest rates, from a peak of 6.5 per cent to 1.25 per cent by October 2002. This inaugurated debt-fueled growth enabled by cheap credit. In 2003, the Bush Administration encouraged mortgage lenders not to press subprime borrowers for full documentation (Ferguson, 2008, p. 268).

Subprime mortgage lending became big business, and the major banks packaged bundles of subprime mortgages into derivatives that sold for a good profit to (often foreign) banks and pension funds. The banks were asking fewer and fewer questions of borrowers. Ninja loans – loans for people with No Income and No Assets-became common. Borrowers were also misled (and were even cheated) when faced with high interest rates soon after having signed the mortgage contract. The floodgates were opened for an unprecedented soaking of the poor. This process had already started under President Clinton. Annual subprime lending shot up from $3.4 billion to $600 billion in just ten years (Documentary: 'Inside Job').

Due to tax cuts for the very rich, spending on the wars in Iraq and Afghanistan and Homeland Security, government budget surpluses immediately transformed into deficits under President George W. Bush. Public debt as a percentage of GDP rose sharply after declining during the Clinton Administration.

As a result of deregulation of the financial sector, the share of finance and real estate in the economy increased tremendously, although employment in finance had remained flat since 1990. While, in 1980, employees in the financial sector earned, on average, the same as in the rest of the economy, by 2006 it was 70 per cent more (Greenwood and Scharfstein, 2013, p. 2).

In 1950, finance contributed 2.8 per cent to GDP; in 1980 4.9 per cent; and in 2006 8.3 per cent. The financial sector grew three times as fast as other sectors. Profits of the financial sector as a share of total profits started to rise and reached more than 20 per cent in 1989 and have continued to rise since then. On the other hand, the growth rate of real investment in manufacturing went continuously down. Much of the growth in finance is associated with asset management and the provision of household debt. While household credit in 1980 was 48 per cent of GDP, it was 99 per cent in 2007 (Greenwood and Scharfstein, 2013). Asset management amounted to $342 billion in 2007, four times the amount of 1997 (Ibidem). The total amount of financial assets was five times GDP in 1980, and by 2007 was ten times GDP (Ibidem). A financial–industrial complex emerged in which corporations shifted from equity to debt financing.

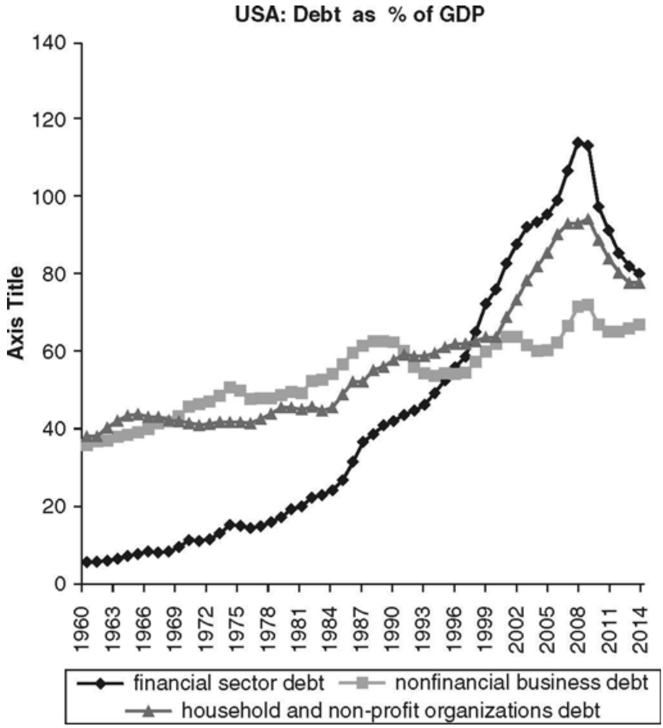

Figure 1.1 Nonfinancial business debt, household debt and financial sector debt, United States, 1960–2014, as a percentage of GDP

Source: St Louis Fed.

Increasingly, profits of banks were related to activities that had no immediate relationship with the real economy. Unable to find an outlet for its growing surplus in the real economy, capital poured its excess surplus into finance. The shift towards speculative finance was mirrored in an explosion of corporate fraud.

The economy financialized. According to Arrighi (1994) and Krippner (2005), financialization is a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production. Following Epstein (2005), financialization means the increasing role of financial motives, financial markets and financial institutions in the operation of the economy. Financialization is also the tendency towards the expansion of the size and importance of the financial superstructure in relation to the economic base (following

Foster, 2010).[6] Financialization is reflected in the amount of debt. In 1970 the total US debt (private and public) was 150 per cent of GDP; in 2009 it reached 369 per cent. Financial sector debt exploded from 22 per cent of GDP in 1981 to 117 per cent in 2008 (see Figure 1.1). Finance took over the leading role in capitalist development from the industrial entrepreneurs. The financial sector became also more independent of the 'real economy' and began to turn away from lending to production enterprises towards lending to households and trading on the bank's own accounts. The enormous increase in banks' assets is therefore not related to expanded services to the sphere of production. Within banking there was a shift from 'relational' banking in which bankers knew the borrower personally and could assess creditworthiness accordingly, and towards 'hard' methods of assessing creditworthiness, which means through statistical means.

The real economic power is no longer in the corporate board rooms but in the financial markets. This is reflected, among others, in the growing role of shareholders and in the ascendency of financial experts in the corporate board rooms at the expense of individuals whose knowledge was intrinsic to the production process. Instead of investing in production outlays, attention shifted to expanding the reach of companies by mergers and acquisitions. In this way, financialization contributed to the centralization of capital.

Financialization is an expression of the structural stagnation of the economy. Debt became the major motor of growth. Production became increasingly incidental to the much more lucrative business of balance-sheet restructuring. Debt can be seen as a drug that serves to lift the economy (Foster and McChesney, 2012, p. 60).

Increasingly, money was made out of money. For example, the trade in foreign exchange exploded. More than 90 per cent of this trade is speculative in character. Another example: stock-market turnover rose from 33 per cent of GDP in 1988 to 383 per cent of GDP in 2008 (Stockhammer, 2010). This increase in turnover also reflects the increase in the frequency that shares are traded. Another innovation of the financial sector was that of junk bonds that have seen an explosion since the early 1990s. A junk bond is a bond listed as below investment grade (rated BB or lower) by the bond rating agencies.

The new doctrine, since 1999, was that of macro-prudential regulation, which means a reduction in financial instability by smart macroeconomic management. This implied, among other things, that banks should be allowed to increase their leverage. In 2004, the SEC (regulator) removed the 'net capital rule'. It meant that there were almost no checks on bank leverage. On top of that, banks started to manipulate balance sheets in such a way that these became mere fiction. Bank profits were increasingly based on activities that did not add value. Banks became parasitic in nature.

Banks increasingly started to make use of structured investment vehicles (often situated offshore) and hedge funds, doing so in order to hide risky or outright illegal activities and to increase leverage. A shadow banking system emerged that was closely linked to traditional banks and completely unregulated. This system began to act as the funding base for traditional banks by selling and repurchasing highly liquid collateral, like Treasury debt and mortgage-backed securities. The repurchase agreement (repo) was the 'depot insurance' for the shadow banking system. The mechanism involves a broker pledging an asset to a lender in return for cash. Repos have become a $10 trillion market and are the oxygen of the financial system. As Geithner pointed out, by 2007 more than half of America's banking was being handled by a 'parallel financial system' or, in other words, 'shadow banking'.[7]

Interbank lending became far more important than lending to nonfinancial enterprises. On this short-term borrowing, long-term lending was based. This kind of interconnectedness of banks and shadow banks increased systemic risk. Instead of lending to enterprises that produce goods and services, banks transformed into borrowing machines. Today, banks lend increasingly to speculators, while (shadow) banks are the major customers. Shadow banking gives banks unlimited possibilities for fraud, tax evasion, illegal activities and credit creation.

Credit default swaps

In just a few years, the subprime mortgage industry became the most powerful engine of profit and employment on Wall Street. How could the granting of subprime mortgages to part of the poor in the United States trigger a world-wide financial crisis in 2008? The principle of credit default swaps has to be explained.

Thousands of mortgages are packed and sold as a mortgage-backed security; a 1,000 mortgage-backed securities are packaged and sold as a collateral debt obligation (CDO); then a 1,000 CDOs are packaged and sold as a CDO squared. In order to eliminate risk from mortgage defaults, credit default swaps (CDS) were bought by holders of mortgage-backed securities in order to be compensated eventually. These CDS and CDOs often received the highest rating by rating agencies because it was assumed, wrongly, that risk was spread to such an extent that some mortgage failures in some corners of the United States never could endanger the edifice of CDS and CDOs. Because these financial products received the official seal of approval of rating agencies, they could be considered as safe investments.

Banks can issue commercial paper against a mortgage-backed security, making the purchase of this security in this way self-financing. Banks created off-balance sheet structured investment vehicles that used money borrowed on the commercial paper market to buy mortgage securities created by the loan aggregators. Thus, banks finance themselves by buying long-term illiquid assets (for example mortgage-based securities) and exchange them in the repo market for short-term loans. In one case, a $38 million subprime mortgage bond created in June 2006, ended up in more than 30 debt pools and ultimately caused $280 million in losses to investors by the time the bond's principal was wiped out in 2008.[8]

Thus, CDS has become the poison in the financial system. According to M. Whitney:

> CDS is the root cause of systemic risk which connects hundreds of financial institutions together in a lethal chain that threatens to crash the entire system. CDS has spider webbed their way into every corner of the financial system, linking together banks and other financial institutions in a way that if one defaults the others go down too.[9]

By insuring financial derivatives and other risky assets, balance sheets of banks could be very much enhanced, thereby further increasing systemic risk. In December 2007, the Bank for International Settlements (BIS) estimated that the derivatives trade was worth ten times the world GDP. In 2008, just five US banks sold more than 95 per cent of all derivatives.[10]

CDS created the illusion of risk-free banking. Complexity was meant to obscure fraudulent behavior. Regulators and most bankers did not understand CDS. Originally, CDS were tools for hedging; then they became tools for speculation. Instead of spreading risk, they created more risk. But CDS gave an enormous boost to liquidity creation by banks.

Bank employees stopped understanding how losses and profits were generated. Complex mathematical models were used to calculate profits by using computer programs. Traders in banks were called F-9 monkeys, because at the end of the day they pushed the F-9 button on their computer in order to get the profit of the day. In fact, with financial derivatives, with the illusion of 'riskless risk', the banks created a Frankenstein monster that in time would turn against its creators.

Risk management became increasingly marginal, while exorbitant risk-taking transformed banking into a giant casino. Pressure from shareholders contributed to more risky behavior by exercising extreme pressure to maximize short-term profits. This can be done by increasing leverage and increasing the loan portfolio. Of course, this puts under risk the long-term sustainability of the bank, but bank managers are interested only in looking at short-term profits, on which their bonuses depend.

The machinery that turned extremely risky loans into supposedly riskless securities was so complicated that investors had ceased to evaluate risks. For risk assessment, banks increasingly relied on the newly developed Value at Risk (VAR) models (implemented in LTCM) that assessed risk without taking into account crucial parameters, such as downward economic conjuncture (most VAR models took into account only statistical data of the last five years). Also, corrupt rating agencies helped managers in off-loading risk assessment.

When Brooksley Born, chair of the Commodity Futures Trading Commission from 1996 to 1999, attempted to sound the alarm about financial derivatives, she was ignored and subsequently crushed by the Clinton Administration, which was very much against any regulation of derivatives, and also was under pressure from Enron (Scheer, 2010, p. 95). It was decided to prevent Born's commission from taking any action on over-the-counter derivatives. This occurred within one month after the collapse of LTCM, which had $1.25 trillion worth of derivatives contracts with less than $4 billion in capital to support them. Treasury secretary Rubin and Fed chairman Greenspan asked Congress to impose a moratorium on the derivatives study of the Born Commission (Scheer, 2010, p.102).

Debt spread, creditors rule

New ways were found to make money.

To the fore came, among others, hedge funds, which initially were instruments for hedging but soon became instruments with which to gamble, often with borrowed money. Already in 1994, *Business Week* (24 April) warned that 'hedge funds are rogue elephants: over-leveraged, under-supervised, and disruptive to the markets'. Unlike traditional investment funds, hedge funds are not regulated. They are totally free in their choice of financial instruments and investments. They are not subject to monitoring by regulators.

Until the early 1990s hedge funds had a marginal role in the financial system. In 1984 there were only 84 hedge funds. Their number grew to more than 1,000 in 1992 and to more than 8,000 in 2005 (Mallaby, 2011, p.130). In the course of the 1990s hedge funds became big enough to move markets of all kinds. For example, hedge funds are making money by trading against central banks.

In 1998 with the possible collapse of hedge fund LTCM, the risk was multiplied by outstanding credit default swaps. Also the crash of the bond market in 1994 and the bursting of the dotcom bubble (2001) showed that hedge funds posed risks, but every time the regulators decided that nothing should be done. In 1990 the turnover of hedge funds was $39 billion, in 2008 it reached $1.9 trillion.[11]

Hedge funds are mainly working from the United States and London, although often formally based in tax havens. Increasingly, hedge funds borrowed from banks. These funds created a capitalism of capitalists without capital.

Hedge funds, but also private equity funds, fueled a boom of mergers and acquisitions in which enterprises were bought and sold with the aim to make a quick profit. First, these enterprises were loaded with debt, then they were 'restructured', which means cut into bits and pieces, before being sold again.

The transformation of the banking sector allowed banks to create money by using the shadow banking system in ways that are totally unregulated. The state monopoly on money creation had been de facto abolished, first by including banks, subsequently by allowing the unregulated shadow banking system to create money. The shadow system creates about half the credit available to the economy but remains unregulated because it does not involve traditional bank deposits. It includes hedge funds, money-market funds, structured investment vehicles, investment banks and even commercial banks (to the extent that commercial banks engage in non-deposit-based credit creation).[12] This is reflected in increased leverage. While in 1945 the ratio of commercial bank assets to reserves and vault cash was 8 in 1945, it became 162 in 2007 (Duncan, 2012, p. 8). The delegation of money creation from the public to the private sector happened by stealth, with few people noticing. Martin Wolf, one of the experts who sat on the independent UK commission on banking, put it bluntly, saying that the 'essence of the contemporary monetary system was the creation of money, out of nothing, by private banks' often foolish lending'.[13] Within the financial sector, increasingly, money has been made out of money by, for example, speculating in asset prices or trading in currencies.

De-regulation of finance had the consequence that for the first time in history (almost) everybody became indebted. The debt levels of households, students, enterprises, governments and banks started to explode. The implication was also that those holding the levers of credit provision became extremely powerful.

Fraud, speculation, deregulation and risk management

Deregulation also involved de-criminalization of financial fraud committed on a massive scale. The mania of the 2000s fed into the wave of fraud. The new financial products, like financial derivatives, were often so complex that even the bankers who issued them did not understand them. This complexity led to abuse that was invisible for clients and the public at large.

According to US Senator Carl Levin:[14]

> Washington Mutual Bank [one of the biggest mortgage lenders] didn't just make loans that were likely to fail, creating hardship for borrowers and risk for the bank. It also built a conveyor belt that fed those toxic loans into the financial system like a polluter dumping poison into a river. The poison came packaged in mortgage-backed securities that WaMu sold to get the enormous risk of these loans and their growing default rates off its own books, dumping that risk into the financial system.
>
> While WaMu and other lenders dumped their bad loans into the river of commerce and regulators failed to stop their behavior, the credit rating agencies assured everyone that the poisoned water was safe to drink, slapping AAA ratings on bottles of high risk financial products.

Eileen Foster, by early 2008 the new fraud investigations chief of Countrywide, one of the major mortgage lenders, claimed that many in Countrywide's chain of command were working to cover up massive fraud within the company, outing and then firing whistleblowers who tried to report forgery and other misconduct. People who spoke up, she says, were 'taken out'. By the fall of 2008, she was out of job, too. Countrywide's new owner, Bank of America Corp., told her it was firing her for 'unprofessional conduct'.[15]

President George W. Bush nullified attempts by state attorneys general to prosecute Countrywide Financial, Washington Mutual, Citibank and other financial institutions for making fraudulent subprime mortgage loans. He blocked 11 state attorneys general from prosecuting financial fraud. Instead, he assigned the complaints to the Washington national bank regulator – who refused to prosecute.[16]

Already in September 2004 the FBI was warning publicly that there was an 'epidemic of mortgage fraud', but Fed chairman Greenspan opposed action against it. The Fed authorities made sure the looting continued. Greenspan was convinced that self-regulation would contain fraud because in the financial sector reputation is of crucial importance. 'The most effective line of defense against fraud and insolvency is counter-parties' surveillance' (Greenspan, 2007, p. 257).

According to Senator Levin:

> The overwhelming evidence is that those institutions deceived their clients and deceived the public, and they were aided and abetted by deferential regulators and credit ratings agencies who had conflicts of interest.[17]

For example, from 2004 to 2008, the regulatory office identified more than 500 serious deficiencies at Washington Mutual, yet did not force the bank to improve its lending operations, according to the report.

According to Levin, Goldman Sachs's

> own documents show that while it was marketing risky mortgage-related securities, it was placing large bets against the U.S. mortgage market. The firm has repeatedly denied making those large bets, despite overwhelming evidence.[18]

The incentive system brought executives to deceive and conceal the real performance and sustainability of their firms. The interests of clients became secondary. Paul Volcker, the former head of the Federal Reserve, argued that Wall Street's claims of wealth creation were without any real basis: 'I wish someone would give me one shred of neutral evidence that financial innovation has led to economic growth – one shred of evidence'.[19]

Debt, speculation and risk are structural components of finance capitalism. Already long ago, these features of finance capitalism had been exposed. 'Usury centralizes money wealth', Marx asserted:

> It does not alter the mode of production, but attaches itself to it as a parasite and makes it miserable. It sucks its blood, kills its nerve, and compels reproduction to proceed under even more disheartening conditions… usurer's capital does not confront the laborer as industrial capital 'but' impoverishes this mode of production, paralyzes the productive forces instead of developing them. (Marx, 1909, p. 710)

Keynes called for the 'euthanasia of the rentier': the sidelining of finance capital, and its subordination to the public-investment programs of the active state. According to Keynes, freedom for financial capital can mean bondage for citizens and their democratic representation.

The role of rating agencies, accountants and regulators

Rating agencies

In 2008, 90 per cent of mortgage securities had been rated as AAA by the rating agencies. Later, they were downgraded to junk status. The problem is that there is a conflict of interest with the rating agencies. They are paid by clients who have an interest in AAA ratings. Therefore the rating agencies have become a tool of the banks, their main clients. Generating more revenue is top priority for these agencies. In a survey of rating agencies employees 'Performing high quality analytical work' only came in fourth place.[20] Often, top management of rating agencies interfere in the rating process, and ratings often do not reflect the opinions of analysts within the agencies. This leads to often-awkward and absurd ratings. For example, Japan received the same rating as Botswana (2002). Days before Enron, WorldCom and Lehman Brothers went bankrupt, Moody's, Standard&Poor's (S&P) and Fitch still rated them as safe investments. More than half of all corporate debt rated by Standard&Poor's as AAA was downgraded within seven years, according to research by Sukhdev Johal.[21] Greece earned good marks until early 2010, when the 'sovereign debt crisis' in Europe began to unfold. The US sovereign debt was downgraded in 2011 based on a $2 trillion mistake by S&P.[22]

Collectively, the three US rating agencies rate around 95 per cent of the world's debt.[23] Given their abysmal record, one may wonder why financial markets still attach so much importance to rating agencies. One major reason is that in 1975 the Securities and Exchange Commission (SEC), the regulator, named the three top rating agencies as Nationally Recognized Statistical Rating Agencies. The SEC made a bank's capital requirements dependent on the ratings of these agencies (Haring and Douglas, 2012, p. 97). It meant that the SEC gave these agencies a quasi-monopoly.

Accountants

Fraud often occurred with the connivance of accountants who ignored or sanctioned it. For example, the prominent accounting company, Arthur Andersen, had to file for bankruptcy after its role in the Enron fraud had been exposed (2001). The bankruptcy of WorldCom revealed that more than $7 billion in accounting errors had been made, and that these were not detected by their accountant, Arthur Andersen.[24]

Accounting firms also often have a conflict of interest. These firms can offer consulting services for the very firms they are auditing. Another problem is that the four major accounting firms (the Global Four, that is KPMG, PWC, Ernst &Young and DeLoitte) constitute an oligopoly. They gave a clean bill of health for all failing banks (and AIG) that needed state support during the Great Financial Crisis. The use of 'off-balance sheet' accounting – usually involving tax havens – had the result that bank and corporate accounts no longer presented a true picture of their financial condition, a basic requirement for averting fraud. Accountants constitute a crucial part of the new financial infrastructure that allows enterprises and wealthy people to avoid taxes and regulation.

Regulators

Since the presidency of Reagan, the principle has been that markets can regulate themselves. In this perspective, regulators are not needed. Therefore regulators were cut financially and were told to condone all kinds of new practices in the financial industry.

Regulators were told and accountants were paid to condone fraud. As early as 1992, the regulator had been informed about the fraud of Madoff who had set up a pyramid scheme with which he defrauded thousands of investors of about $55 billion. According to David Kotz, the SEC's inspector general:

> Despite numerous credible and detailed complaints, the Securities and Exchange Commission never properly examined or investigated Madoff's trading and never took the necessary, but basic, steps to determine if Madoff was operating a Ponzi scheme.[25]

The most serious problem with regulators is control of the public regulatory process by the special interests being regulated. It is called regulatory capture, which means that the regulated regulate the regulator. A whistle-blower at the SEC revealed that the agency has been systematically destroying records of its preliminary investigations once they are closed. By eliminating the files, the SEC has kept federal investigators in the dark about past inquiries into insider trading, fraud and market manipulation against companies.[26]

Within the SEC, staffers were directed to dispose of the documents from any preliminary inquiry that did not receive approval from senior staff to become a full-blown, formal investigation. According to Matt Taibbi:

> Amazingly, the wholesale destruction of the cases – known as MUIs, or 'Matters Under Inquiry'– was not something done on the sly, in secret. The enforcement division of the SEC even spelled out the procedure in writing, on the commission's internal website.

After closing an MUI that has not become an investigation, 'the site advised staffers, "you should dispose of any documents obtained in connection with the MUI"'.[27] When the SEC suspects a bank of wrongdoing, the negotiations are predictable. Firstly, the SEC gathers evidence that the bank broke the rules. Much of that information is given by the banks themselves, because the SEC has a small budget and few resources. The SEC is no match for the banks. The second step is that the bank, confronted with the possibility of a court case, agrees to pay a fine in order to settle the allegations. Thirdly, the bank agrees to a press release in which it denies 'any wrongdoing'.

The problem is that the courts cannot send anyone to jail without proof. But the SEC and other regulators do not allow proof of guilt in their investigations. This is designed specifically to keep the banks out of court. And that is why there are no significant cases around Wall Street malfeasance: they are practically impossible.

Financialization and the decline of manufacturing

Checks and balances with respect to corporate governance have been gradually removed. Nonfinancial corporations have been increasingly involved in investment in financial assets and financial subsidiaries and have derived an increasing share of their income from them. At the same time, due to the shareholders' revolution, there has been an increase in financial-market pressures on nonfinancial corporations. There has been an increasing transfer of earnings from nonfinancial corporations to financial markets in the forms of interest payments, dividend payments and stock buybacks. On the basis of a sample of nonfinancial corporations from 1973 to 2003, Orhangazi (2008) found a negative relationship between real investment and financialization. The negative effect of increased financial profits is most obvious in large corporations, arguably more involved in financial investments than were small corporations. Stock buy-backs became increasingly important, as they could enhance the earnings of management. Debt became more important and, by 2012, on average 36.8 per cent of private enterprise income went to interest payments.[28]

General Electric (GE) is a textbook example for how short-term greed can serve executives while destroying a company's future (Scheer, 2010, p. 44). The company was saved in 2008 by $100 billion in government guarantees for its loans. When the 2008 crisis came, GE was one of the biggest basket cases mainly because of the failure of its financial services unit, GE Capital. GE Capital offered myriad financial products without having to bear the regulatory burden of banks. In 2013 GE Capital provided half of GE's earnings, while in 2008 it was the fifth largest lender in the United States. In 2015 GE decided to sell the larger part of GE Capital.[29]

Often, in the process of financialization, the interests of employees and customers are sacrificed to benefit shareholders. For example, Boeing and Sara Lee outsourced part of their manufacturing, in view of short-term profitability, even though integrating manufacturing and research and development is crucial for innovation. As a result of outsourcing, control over the supply chain was lost, and quality declined. The decline of IBM is also telling: earnings per share increased, through cost-cutting and financial engineering, but revenues decreased. A survey of chief executives showed that, in order to meet financial targets, 78 per cent would 'give up economic value', and 55 per cent would cancel a project with a positive net present value.[30]

US manufacturing employment peaked in 1979 at almost 20 million and fell to about 11.5 million in 2010. This is not only related to productivity increases but also to relocation of US industry abroad. It is the result of the paradox of an economy where financialization rather than capital accumulation has become the motor of the system.

Suppliers and supply chains interact in complicated ways. For example, if an industry dies through outsourcing, a complex network of competences, tangible and intangible, dies with it. In the words of CEO Richard Elkus:

> Just as the loss of the VCR (Video Cassette Recording) wiped out America's ability to participate in the design and manufacture of broadcast video-recording equipment, the loss of the design and manufacturing of consumer electronic cameras in the United States virtually guaranteed the demise of its professional camera market…Thus, as the United States lost its position in consumer

> electronics, it began to lose its competitive base in commercial electronics as well. The losses in these related infrastructures would begin to negatively affect other down-stream industries, not the least of which was the automobile…Like an ecosystem, a competitive economy is a holistic entity, far greater than the sum of its parts.[31]

Shareholders' power

The increasing power of institutional investors, such as pension funds, insurance firms and mutual funds contributed to financialization of nonfinancial enterprises. Whereas in 1973 they owned 47 per cent of the top 1,000 US companies, they owned 73 per cent in 2013.[32] During the 1970s, some crucial measures were taken to facilitate trading in stocks that would allow investors to shift their money away from investments in productive assets. Fixed commissions on stock transactions were abolished by the New York Stock Exchange (1975) so that it became less costly for speculators to buy and sell. In 1971 Nasdaq was launched as a national electronic stock market that could generate price quotes on highly speculative stocks. Pension funds were encouraged to speculate on the stock market.

The shareholders' revolution implied a radical rethinking of the concept of the firm – from being an organic identity centered on a product or industry, to being a bundle of assets that could be split up and sold. The shareholders' revolution led to the orientation of nonfinancial firms to financial markets. Shareholders' capitalism implies an extreme concept of property relations that means excluding from ownership all other considerations, including other stakeholders such as employees and society at large.

The shareholders' revolution also led in the 1980s and 1990s to a frenzy of corporate raids and mergers. In 1990, one third of the companies in the Fortune 500 were targeted for hostile takeovers.· But mergers and takeovers have led to value destruction instead of value creation. McKinsey reviewed 160 mergers between 1992 and 1999, and revealed that only 12 of the merged groups succeeded in lifting organic growth above the trends before the merger; the other 148 failed.[33] KPGM (1999) found in a survey that 53 per cent of cross-border mergers between 1996 and 1998 destroyed value, while only 17 per cent added value.· In 2000, there were about 5,000 mergers in the United States, approximately double the level of 1990. Merger mania can also be linked to the cheap money provided by Wall Street.

According to Lazonick (2010), the balance of forces within the US economy shifted from 'value creating forces' to 'value extracting ones'. The key value extractors were the financial institutions and the senior executives of industrial companies. CEOs have become shareholders themselves, which gives them incentives to manipulate shares. In 1970 stock-based incentives accounted for less than 1 per cent of CEO remuneration. After 1976, executive compensation became increasingly stock based. That gave them an incentive to increase the share price by using enterprise resources to buy back stock. For the 459 companies in the S&P 500 Index, during 2003–07 stock repurchases quadrupled compared to the period 1997–2003 (UNCTAD, 2012, p. 91). Related to the more prominent role of managers and shareholders in companies, the strategies of firms changed: from investing in innovation to cost-cutting, partly through offshoring. As a result of the shareholders' revolution, the close link between profits and investments has been broken. As Floyd Norris noted in the *New York Times* (18 March 2001), stock buy-backs used up so much cash that companies had to resort to borrowing for investment in their businesses. The result, he wrote, was that 'during a period of unparalleled corporate prosperity, the debt of corporate America grew substantially'.

Whereas, during 1960–80 32 per cent of profits was paid out in dividends, during 1981–2007 this share rose to 60 per cent (Panitch and Gindin, 2014, p. 187). Little was left over for investments in innovation, including upgrading the capabilities of their workforce. As a result of the managerial revolution, manager pay exploded. From 1931 to 1979 the median CEO earned about $1 million a year. This increased to $1.8 million in the 1980s, $4.1 million in the 1990s and $5.2 million in 2000–05 (Haring and Douglas, 2012, p. 109).

For most economists and the public at large, the stock market exists in order to efficiently allocate money to productive activity. But numerous studies show that stock markets extract rather than add value. Kelly (2001, p. 34) calculated that equity issues were ultimately a negative source of funding for corporations.'New equity sales were a negative source of funding in fifteen out of the twenty years from 1981 to 2000'.'The net outflow since 1981 for new equity issues was negative $540 billion' (Kelly, 2001, p. 34). Companies pumped money into stock markets in order to prop up their share price. Kelly concludes that stockholders are not investors, but are extractors. According to Kelly (2001, p. 35), rather than capitalizing companies, the stock market has been de-capitalizing them. 'When we buy stock, we are not contributing capital, we are buying the right to extract wealth' (Ibidem).

Monopolies and internationalization of US capital

Increasingly, US industries have become dominated by monopolies and oligopolies. This leads to monopoly profits.

For example, an oligopoly in cable provision (the merger of Comcast and Time Warner in 2014 delivered them a 57 per cent share of cable provision) makes the average cost for 1 Mbps $1.10, which is much higher than in France ($0.34) or South Korea ($0.21). Moreover, the quality of the network is inferior.[34] Also, through lobbying, US cable companies have escaped the universal access and affordability clauses that were imposed on telecoms and electricity companies in earlier eras.

After the merger of American Airlines with US Airways, just three major US carriers, including Delta Airlines and United Airlines, offer extensive domestic and international services. The oligopoly of pharmaceutical industries, with the help of the US government, has made drug prices several times higher than in other countries.[35]

As argued above, financialization led to centralization, while there was an increasing focus on mergers and acquisitions. As Roberts (2013, p. 81) noted, 'Today, mergers and concentration of economic power are no longer seen as encroachments on competitive markets but as necessary to maintain global competitiveness'. Often, international mergers and acquisitions are used to shift abroad profits from the United States, thereby contributing to tax evasion. In this process, increasingly, headquarters of companies are shifted abroad as well. As a result of fancy accounting, the actual corporate tax rate went down from 30 per cent in the early 1980s to 15 per cent in 2013, although the official tax rate has not changed.[36]

Profits have increased since the mid-1980s, especially for major enterprises (Figure 1.2). An increasing share of profits is being paid out in dividends. Payroll taxes make up 35 per cent of all federal government tax receipts, up from 11 per cent in 1950. Corporate income taxes, meanwhile, make up less than 10 percent of federal revenue, down from about 26 per cent in 1950.[37]

In 2009, US companies held $1 trillion of untaxed profits off shore (Shaxton, 2011, p. 129). Large companies had increasingly been able to finance investment without the intermediation of the banks.

The new economy shifted wealth from production to a class of rentiers.

US enterprises are also becoming more internationalized. Nowadays, for General Motors, two thirds of sales are abroad. Out of the cost of a $179 Iphone by Apple, about $61 has to be paid to Japanese workers, $30

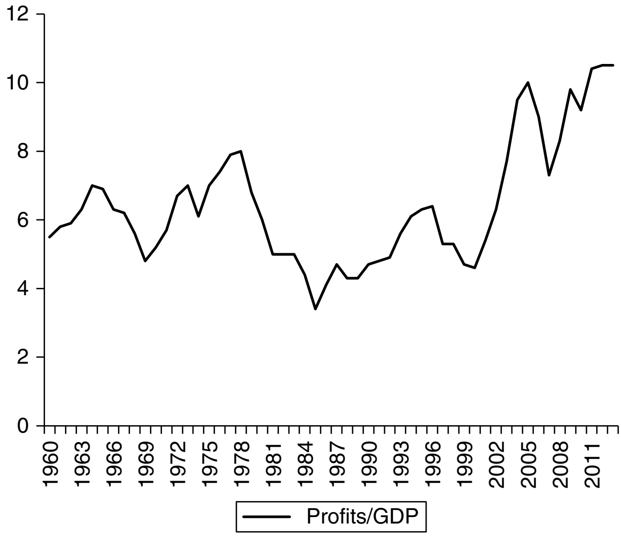

Figure 1.2 Corporate profits as a share of GDP, 1960–2013
Source: St Louis Fed.

to German workers, \$23 to Korean workers and \$6 to Chinese workers. Only about \$11 of that Iphone goes to US workers, mostly researchers and designers.[38] The share of financial profits and profits from abroad rose from about 12 per cent in 1948 to a peak of 53 per cent in 2001 (Stockhammer,2010).

Especially since the 1990s, US companies have perceived it as less risky to invest abroad. Globalization made cross-border capital flows easier, and new transport and communication technologies facilitated outsourcing. The result was that the home bias of US companies declined, and domestic savings and investments became totally decoupled. Even the *Wall Street Journal* (24 April 2013) has criticized corporate globalization and US multinational firms:

> Since 1999, employment by U.S. multinationals is down by 1.1 million inside the US, while it is up by 3.8 million overseas.
>
> The hiring by American companies is not happening in the U.S. At the same time these companies are holding \$1.7 trillion of profits outside of the country, away from their own shareholders and our economy to avoid their taxes, while pushing todramatically lower the taxes they pay us – and even to get out of paying any taxes at all on

> money they make outside of the country! … Citizens, elected officials and corporate management have forgotten why we have corporations and who they are supposed to serve. We have instead developed a system in which corporations exist for their own sake, doing anything they want to do, and doing these things only to enrich the few who own and manage them. … For all intents and purposes giant 'American' multinational corporations have transformed into entities with completely different interests from their American workers, customers, communities, citizens and government.

US multinationals are becoming footloose. Outsourcing has changed the structure of American employment from higher-productivity jobs to lower-productivity jobs, and that is the reason both for the stagnation in US salaries and for the rising inequality of income.[39] Out of 30 occupations with largest employment growth, only 7 require a university education (Roberts, 2013, p. 110). Offshoring is even killing research and development jobs. There is also the trend of US companies to hire foreign specialists on work visas in order to replace higher-paid Americans.[40]

A worrisome development since the early 1980s, and related to relocation of production, is the growth of current account deficits, which attained 6–7 per cent under President George W. Bush (Figure 1.3).

The current account deficit is financed by, among other things, the sale of US Treasury bills, which are considered abroad to be a first-rate

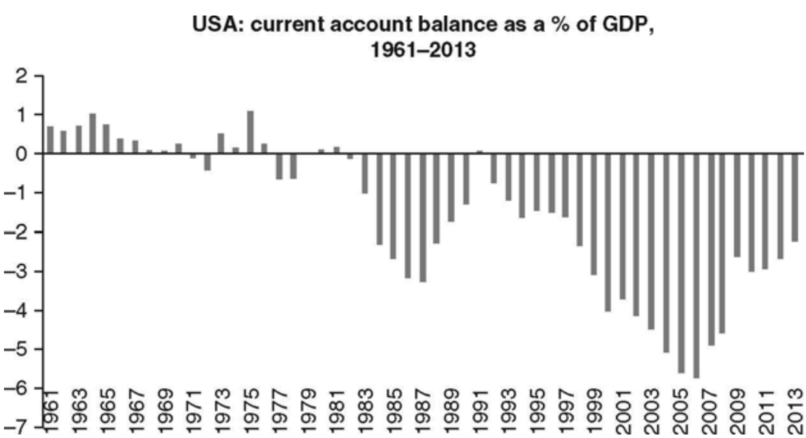

Figure 1.3 US current account balance, 1961–2013
Source: OECD.

investment. The current account deficit would be even bigger without the inward-bound foreign direct investment. However, foreign investment is mainly in existing assets and hardly contributes to employment growth. While new business comprised 30.8 per cent of FDI in 1992, it was 3.8 per cent in 2000 and 6.7 per cent in 2008 (Roberts, 2013, p. 120). According to Roberts (2013, p. 121), 'the trade deficit is financed by turning over ownership of US companies to foreigners'.

War against labor

Labor markets have become more flexible, which means that workers are increasingly treated as commodities. In the 1970s Americans and Europeans worked about the same number of hours; by the late 2000s Americans worked almost double the hours of Europeans (Lanchaster, 2010, p. 22). In the labor market, the part-timer, the temp and the short-term contract are the forms of employment of a new 'precariat' that is constantly on the move between jobs and places.[41] In 2011 20 per cent of all employment was part-time. In 2012, moreover, 46 per cent of those in low wages had university educations (this was 17 per cent in 1968).[42] The power of trade unions diminished, and trade-union membership went down from 30 per cent of the workforce in 1950 to 11.3 per cent by 2012 (with over 91 per cent of private-sector workers without any representation). The annual median wage declined from $54,841 in 2000 to $50,054 in 2011 (in dollars).

Whereas, during 1947–73, 93 per cent of labor productivity growth was reflected in growth in real hourly compensation, it declined to 82 per cent for the period 1973–89, to 71 per cent for 1990–2000 and to 44 per cent for 2000–10 (Roberts, 2013, p. 121); 80 per cent of all new income during 1980–2005 went to the top 1 per cent.[43]

The number of high-net-worth individuals in the United States is 2.9 million, their assets totaling$12.3 trillion (2009). For comparison, the US 2009 budget deficit was $1.7 trillion.[44] The super-rich receive most of their income through financial investments that are taxed at lower capital-gains rates, and which can be offset through myriad deductions and loopholes.

The United States considers itself an example of democracy, but looking at the economy, labor has little or nothing to say. Employers can do whatever they want, and workers enjoy little protection. There are no workers' councils. More and more enterprises have designated themselves as trade-union-free zones.

Privatization and reducing the role of the state

Bank-owned state

Unaccountable institutions such as the US Treasury and the Fed have become increasingly important in determining economic policy. The Fed is no government-owned central bank: its shares are owned by the commercial bank members of its system. Traditionally, the Fed has acted as a lobby for the commercial banking system. Congress has not even the authority to monitor the Fed.

A system of revolving doors has emerged in which bankers from Wall Street move to government positions and vice versa. The state has become increasingly captured by corporate interests, facilitated by the fact that politicians are increasingly dependent on corporate donations for their campaigns. Most election contributions are not disclosed. Political posts are for sale. Former Monsanto employees hold key posts in both the Food and Drugs Administration and the US Department of Agriculture.[45] The cost of winning a congressional seat has surged. In the period 1974–90 the cost of a seat in the House of Representatives was between $56,000 and $410,000. During 1990–2000 it tripled to $1.25 million (Johnson and Kwak, 2010, p. 90). This led to the rise of a financial oligarchy, a group that gained political power because of its economic power. Nowadays, the two major political parties form a duopoly in Wall Street's interests. Therefore, according to a study of the IMF (Igan et al., 2009), the lobbyists of the financial industry get the legislation they want.

The complicated web of checks and balances that used to exist in the United States and curbed abuse of power, gradually has been unraveled. A countervailing force for the financial sector and big multinationals is hardly extant in the United States.

Washington Post columnist Katrina vanden Heuvel put it very bluntly:

> In today's politics, the bipartisan center usually applauds when entrenched interests and big money speak. Beneath all the partisan bickering, bipartisan majorities are solid for a trade policy run by and for multinationals, a health-care system serving insurance and drug companies, an energy policy for Big Oil and King Coal, and finance favoring banks that are too big to fail. Economist James Galbraith calls this the 'predator state,' one in which large corporate interests rig the rules to protect their subsidies, tax dodges and monopolies. This isn't the free market; it's a rigged market.[46]

The public good, on the other hand, is neglected. Public investment as a percentage of GDP hit, in 2013, with 3.6 per cent the lowest level since 1945 (the postwar average is 5 per cent).[47]

Privatization

The economic role of the state has been reduced by the privatization of public enterprises, but this was less pronounced compared with, for example, the United Kingdom.[48] In the United States, since the early 1980s, services above all have been privatized: such as airport operators, vehicle maintenance, hospitals, parking lots and public safety services. In 1996 for-profit agencies also could become vendors of social services. Most privatization in the United States occurred at the level of local governments. An important area of privatization is that of security and the military. Here the crucial monopoly of the state on violence is involved. Within the military the trend was increasingly to outsource core functions to private contractors (see Klein, 2007). Also, prisons have been privatized. An American judge known for his harsh and autocratic courtroom manner was jailed for 28 years for conspiring with private prisons to hand young offender's maximum sentences in return for kick-backs amounting to millions of dollars.[49]

Market society

In the United States during the last three decades there has emerged an aristocracy of rent-seekers who squeeze society. This is sustained by an ideology of shareholders' value that claims that shareholders, whose only function is to extract wealth from enterprises, have the right to do whatever they want with enterprises. The burdens of the public domain have been shifted from the rich and the enterprises to the poor and the employees.

One of the American myths is that of equality of opportunity. However, the trend of the last four decades is that of decreasing social mobility and it has become less likely than ever that people can improve their social standings. The United States is the only country in the Organisation for Economic Co-operation and Development (OECD)where educational attainment levels among those just entering the labor market (25to 34year-olds) do not exceed those about to leave the labor market (55 to 64year-olds).[50] This situation is related, among others, to soaring costs of education.

People of most social backgrounds have become more indebted, and debt has become a weapon of the powerful. The banks and the state, on the other hand, can have as much debt as they want. It is telling that nowadays the banks can borrow from the Fed at interest rates near zero, while students have to borrow (state-guaranteed, no risk) from banks at an interest rate of 8 per cent.

Apart from the religious institutions, law has become in the United States almost the only functioning social institution, and prisons among the few remaining means of social control. In the United States an ideology of rights has developed in which arbitration by law is the ultimate means of conflict resolution. Procedural rationality is less relevant for the poor, who cannot afford lawyers. The American elite assumes it can ignore and exclude the poor while disciplining them with harsh policing. The United States has 5 per cent of the world's population but 20 per cent of the world's prisoners.[51] In 1970 there were fewer than 200,000 in jail, in 2012 2.3 million. There is a correlation between market fundamentalism and growing prison populations.

The United States spends far more on healthcare than any of the other 29 OECD nations, and gets less healthcare for its money. Annual public and private healthcare spending in the United States stands at $7,538 per person, 2.41 times the OECD average (2013). Americans are sicker and die earlier compared to many other developed countries. More than 40 per cent of US citizens went without health insurance or had coverage that did not protect them against high medical costs.

Although in terms of GDP per capita the United States is one of the richest countries in the world, the quality of life of many of its average citizens is far below the citizen in many other developed capitalist countries.

2
The United States: The Great Financial Crisis and Its Aftermath

Key stages

Very few in the political, business, scientific and media elites spotted the emerging financial crisis of 2007–08. Most were blind to the dangers of the house-price bubble and the massive gambling with financial derivatives and subprime mortgages.

Already in March 2007, one in three subprime mortgages was in arrears (Ferguson, 2008, p. 115).[1] This was related to, among other things, the raising of interest rates. The Fed funds rate went up from 1 per cent in 2003 to 5 per cent in 2006. The financial crisis started on 9 August 2007, when Paribas announced that it would stop supporting three hedge funds that specialized in US mortgage derivatives. Paribas said it could not value the toxic mortgage assets in three of its off-balance-sheet vehicles. Therefore, the liability holders, who thought they could get out at any time, were frozen. The unraveling started on that day.

The problem was that the banks had been using toxic financial derivatives based on subprime mortgages to secure funding in the repo market. Once their value was plunging, the banks were becoming increasingly less liquid and less inclined to deal with other banks that they knew were also in trouble. It was not just the $1.5 trillion subprime mortgages that caused the meltdown, but the $14 trillion of financial derivatives built upon them and that had been traded through shadow intermediaries.[2]

In Europe, many bankers felt the danger and stopped lending to each other. The European Central Bank offered a cheap credit line worth €95 billion and, also, the US Fed provided cheap credit to banks in liquidity difficulties. The German IKB bank had to be rescued (August 2007) after it appeared that its holdings of subprime CDO's worth €3.5 billion had become practically worthless. British Northern Rock had to be rescued after a bank run (October 2007). But the Fed was playing down the problems and was totally unprepared.[3] Nevertheless, both the US and European central banks let it known that systemically important banks could not fall. Two hedge funds of US bank Bear Sterns were attacked, and this bank, which had refused to participate in the bailout of LTCM, was taken over by JP Morgan with assistance from the Fed (March 2008). On 6 September 2008, the government took over the two major government-backed mortgage giants, Fannie Mae and Freddie Mac, which had $5.2 trillion in mortgage-backed securities and mortgage debt on their books.[4]

The slow banking run commenced on 9 August 2007, but it was very much an orderly run until 15 September 2008.

Crucial to understanding how the crisis unfolded is how the repo (repurchase) market works. It can be compared to the following:

> Assume you have a business and you need financing. You can go to the local bank showing an original Picasso. The local bank decides that you are creditworthy and lend[s] you $10 000 on the condition you give the bank back $10 500 next month. In the meantime the bank did some research and discovered the Picasso is fake. You want to renew the deal and ask again [for] $10 000. But the bank refuses and you get only $5000. Then you get into problems because you have used the $10 000 for longer[-]term investments. You are facing bankruptcy unless you dig into your savings.

During the financial crisis banks were faced with similar problems in the repo (repurchase agreement) market. Discovering that bonds might contain toxic assets, the banks started to reduce loans based on those assets. The result was the freezing of credit markets.

When Lehman Brothers defaulted on 15 September 2008, the downward spiral accelerated. A problem for the banks was the increasing reliance on wholesale funding – that means interbank lending and central bank lending – and this funding became increasingly from foreign sources. This had increased systemic risk.

The real cause of system-wide counterparty default was imminent insolvency resulting from banks holding collateral the value of which fell below liability levels in a matter of days. So, it was not the subprime mortgages that caused most of the damage, but the amount of leverage bundled into the derivatives and the repo market.

Another crucial element in the collapse of Bear Sterns, Lehman Brothers and AIG was the fact that repo and derivatives partners of those institutions suddenly stopped trading and 'looted' them instead. They could do so because they had 'safe harbor status', given to repo and derivatives traders by Congress in 2005 with the passage of the Bankruptcy Abuse Prevention and Consumer Protection Act.[5] The new law exempts derivatives traders from the 'automatic stay' rule in bankruptcy. When a bank goes bankrupt, the repo lenders and derivatives traders – before even the most senior bond holders – can remove, or keep, all the assets pledged to them. They can take back collateral before any other creditors. They even have a perverse incentive because they have no reason to stop a bank from going under. This dimension of the crisis has hardly been looked upon.[6]

The unexpected fall of Lehman Brothers (September 2008), one of the biggest banks on Wall Street, showed that many big banks can fall.[7] Suddenly, policy makers around the globe realized how interconnected banks are, especially in the Northern Atlantic, and how failure of one big bank might threaten the financial system of, not just one country, but of many. A chain reaction of collapsing banks worldwide would have meant a paralysis of all economic activity, with empty supermarket shelves, no salaries and no money from cash machines. It would have meant panic and, at least, a state of emergency. Therefore, politicians were in shock, and the widespread belief of self-correcting markets was shattered.

When, in September 2008, Fed chairman Bernanke was telling Congress that the economy would collapse if it did not approve the $700 billion Troubled Assets Relief Program (TARP) bailout. He warned that the commercial paper market was shutting down. Most major companies rely on selling commercial paper to meet their payrolls and pay other routine bills. If they could not sell commercial paper, then millions of people would soon be laid off and the economy would literally collapse. According to Dean Baker,

> [W]hat Mr. Bernanke did not tell Congress is that the Fed has the authority to directly buy commercial paper from financial and non-financial companies. In other words, the Fed has the power to prevent the sort of economic collapse that Bernanke warned would happen if Congress did not quickly approve the TARP. In fact, Bernanke announced that the Fed would create a special lending facility to buy commercial paper the weekend after Congress voted to approve the TARP.[8]

According to a memo of the New York Fed, in September 2008 Lehman was narrowly solvent and therefore might have qualified for a bailout.[9]

The reason Bernanke did not underwrite the commercial paper market was that if he had, he would not have been able to blackmail Congress. He needed the rising anxiety from the crisis to get TARP accepted. Although nobody realized it at the time, Lehman Brothers had to die for the rest of Wall Street to live.[10]

Earlier, during Black Monday (1987) and the rescue of LTCM (1998) the government had already signaled that financial institutions that are too big to fail could count on support. This all had created moral hazard. Nationalization could have been an option. North Dakota is the only state with a state-owned bank. It is also the only state that escaped the financial crisis.

Also, some manufacturing enterprises, such as automotive manufacturers Chrysler and General Motors, had to be saved. But when bailing out General Motors, the US government deliberately took shares that did not have voting rights. It means that government did not have any say in the management of the company.

Bankers' coup: Trash for cash

In 2008 Barack Obama campaigned for the presidency and criticized the power of Wall Street. However, upon entering office, he appointed as the top people responsible for economic policy those who were responsible for deregulating finance under President Clinton. This can be compared to appointing pyromaniacs as directors of fire departments.

Lawrence Summers and Rahm Emanuel worked on Wall Street before returning to government. The Treasury secretary, Tim Geithner, was a senior member of the Bush administration's financial crisis team, in his previous job as president of the Federal Reserve Bank of New York. It meant that when Obama succeeded Bush, there was seamless continuity with respect to economic policy. In key posts for economic policymaking, former bankers have been appointed, notably from Goldman Sachs.[11]

The Troubled Asset Relief Program authorized the use of $700 billion to stabilize the failing financial system. The proclaimed aim was to restore the flow of credit in the economy, to protect home values and consumer savings, help citizens keep their homes, and create jobs. The legislation urged the bailout's architects to maximize returns to the American people.

The $700 billion bailout had, by early 2009, grown into a more than $16 trillion commitment by the US government and the Fed. Yet the Congressional Oversight Panel concluded in its monthly report for

February 2009 that the Treasury received on average only $66 worth of assets for every $100 invested.

According to Robert Kuttner, in devising the banking bailout,

> Lawrence Summers and Treasury Secretary Geithner of the newly established Obama administration did not consult closely with Congress. The new rescue package was not legislated. There were no hearings. Rather, they met extensively with key Wall Street banking barons, to design government guarantees so lucrative that speculative hedge funds and private equity companies would bid for toxic securities clogging bank balance sheets. They would make a financial killing, but maybe banks would be recapitalized and start lending again.[12]

The government introduced 'public-private partnerships' in order to help the financial sector, but the new private investors put up just three per cent of the money. The rest was from the Fed and the Federal Deposit Insurance Company (FDIC). But, according to Kuttner,

> if nearly all the risk and all the money is coming from the Fed, who needs the middlemen? Even more alarmingly, the administration is now using the Federal Reserve as an unlegislated, all-purpose slush fund. Because the FED's operations are largely beyond the reach of Congressional appropriations or scrutiny, the FED can do whatever it wishes with its money. The Geithner plan was negotiated behind closed doors, the main players being the FED, the FDIC, the Treasury, and power-brokers on Wall Street.[13]

According to Neil Barofsky, the former special inspector general for TARP, the aim of Geithner was to preserve the largest banks at any cost, no matter the consequences.[14] Barofsky, in his book 'Bailout, Why TARP Failed', wrote:

> It was shocking how much control the big banks had over their own bailout and how they often would dictate terms of some of the TARP programs and the overwhelming deference shown by Treasury officials to the banks. I saw no differences in these core issues between the Bush and Obama administrations
>
> When I got to Washington, I saw that it had been hijacked by a small group of very powerful Wall Street banks.... [Geithner]

> oversaw a policy that saw our largest banks, the too-big-to-fail institutions, get bigger than ever and more powerful, more politically connected.[15]

Moreover, there was no public paper trail from the Fed's loans. The Obama administration was making trillion-dollar decisions relying on the Fed and a small Wall Street club of advisors, with no transparency or public accountability. Because the Treasury department attached minimal conditions to the billions injected into the financial institutions, instead of overhauling the broken financial system and helping the individuals most affected by the crisis, the bailout encouraged the very behaviors that created the economic crisis in the first place.[16]

The Fed gave out $16.1 trillion in emergency loans to US and foreign financial institutions between 1 December 2007 and 21 July 2010, according to figures produced by the government's first-ever audit of the Fed. The secret Fed loans to the six biggest banks comprise 63 per cent of all Fed loans.

The bailout's focus on Wall Street mega-banks and the Fed allowed hundreds of smaller banks to go bankrupt although they qualified for Fed assistance.[17] This is not very surprising given the fact that the Fed is a private institution of the biggest banks, one which also works for these banks.

Taibbi gives, as an example of corrupt bailout practices, the example of the company Waterfall TALF Opportunity.

> At first glance, Waterfall's haul doesn't seem all that huge — just nine loans totaling some $220 million, made through a Fed bailout program.... But upon closer inspection, Waterfall TALF Opportunity boasts a couple of interesting names among its chief investors: Christy Mack and Susan Karches. Christy is the wife of John Mack, the chairman of Morgan Stanley. Susan is the widow of Peter Karches, a close friend of the Macks who served as president of Morgan Stanley's investment-banking division. Neither woman appears to have any serious history in business, apart from a few philanthropic experiences. Yet the FED handed them both low-interest loans... through a complicated bailout program that virtually guaranteed them millions in risk-free income.[18]

If there is a loss on securities bought with bailout money, the Fed will take the losses. Also, Fed loans at near zero per cent interest rates can be transformed into easy gains by buying Treasury bonds. Above all non-regulated shadow banking institutions, like hedge funds, have profited from the explosion of cheap money.

The Board of Governors of the Federal Reserve has the immense power to avoid democratic scrutiny and to make loans to individuals, partnerships and corporations that are 'unable to secure adequate credit accommodations from other banking institutions' provided there are 'unusual and exigent circumstances'.[19]

Also, AIG, the world's biggest insurer, received a $185 billion bailout (October 2008). President Obama once described AIG as a 'hedge fund on top of an insurance company'.[20] The London AIG unit of 400 people had brought down the company. AIG insured, for example, risky CDS based on subprime mortgages. Just one year before the government bailout, Goldman Sachs, who knew about the risk of these CDS, made payment demands that were a major factor in the AIG downfall. On the basis of internal AIG emails, it can be concluded that Goldman, in the two years preceding AIG's bailout, worked to undermine investor confidence in the insurer, then the biggest seller of credit default swap contracts, and to drive down the market value of mortgage-backed securities.[21] But with the AIG bailout, Goldman Sachs immediately got $14 billion of the bailout money. The New York Fed took the CDS off AIG's books, paying the banks 100 cents on the dollar for toxic mortgage bonds. This operation turned out to be a direct subsidy to those banks from the $185 billion AIG bailout.[22]

With the bailout money, the government could have become owner of all banks. However, it was the taxpayer's money that prevented the clearing up of Wall Street banks. About $16 trillion was used to prop up the oversized financial system while providing less than $900 billion stimulus for the real economy. The US national debt jumped from 43 per cent of GDP before the crisis to 70 per cent in 2010.

The administration never kept any of the promises made to Congress in order to get approval of the bailout in 2008. One of the promises was that homeowners should be protected. The opposite happened.

2007–13: Hardly any reform of the financial sector

Not, or scarcely, addressed since 2008 have been:

- Separation of investment and retail banking
- Splitting up of big banks
- Shadow banking
- Tax havens

- Dodgy accounting practices
- Role of regulator
- Regulation of speculative trading in currencies
- Role of rating agencies
- Incentive system of banks
- Taxation of financial transactions·
- Regulation of trade in financial derivatives
- Repo and hypothecation
- High frequency trading
- Naked short selling
- Re-criminalizing fraud

The Dodd-Frank financial service act has been passed (2010) but it is up to bureaucrats, with the help of Wall Street lobbyists, to fill in specifics, with the result that everything is watered down and even rolled back. Sometimes, bankers are themselves writing the legislation. According to the *New York Times* (23 May 2013), a financial services reform bill with bipartisan support

> sailed through the House Financial Services Committee this month – over the objections of the Treasury Department – (and) was essentially Citigroup's.... The bill would exempt broad swathes of trades (including Citigroup's) from new regulation.... Citigroup's recommendations were reflected in more than 70 lines of the House committee's 85-line bill. Two crucial paragraphs, prepared by Citigroup ... were copied word for word. (Lawmakers changed two words to make them plural.)

Citigroup has been involved in many frauds over the past three decades.

The separation of investment and commercial banking has not yet been accomplished. The Volcker rule, part of the Dodd-Frank legislation (2010), which would prevent banks from gambling with deposits insured by the federal government, was first watered down by the banks and its implementation has been repeatedly delayed. In December 2014 President Obama removed the rule that obliged banks to establish uninsured subsidiaries to conduct their speculative derivatives-trading activities.

According to a report of the Federal Deposit Insurance Corporation (2014), 11 banks operating in the United States are too big to fail. The report states that these firms are generally larger, more complicated, and more interconnected than they were prior to the crisis of 2008.[23] The five biggest banks had, by early 2015, 44 per cent of all banking assets, up from about 25 per cent in mid-2008 and 10 per cent in 1990.[24] On the other hand, during 2008–13, 1,400 smaller banks disappeared.

In the US mortgage market, little has changed. In 2012 the five biggest mortgage providers had 53 per cent of the market and therefore are able to squeeze mortgage holders.[25] Banks are now helping to create new bubbles. The biggest banks again started issuing mortgage backed securities that will carry an explicit government guarantee. Again, rating agencies have lowered their standards for rating commercial mortgage-backed securities.

Even Daniel Tarullo, the Fed governor who is leading the Fed's regulatory efforts, was saying May 2013 that too-big-to-fail banks still constitute a threat and suggested that regulators force the biggest banks to reduce their borrowings, increase the amount of equity capital they use to fund their assets and improve their liquidity – all beyond the standards agreed upon internationally.[26] Goldman Sachs and Morgan Stanley still relied in mid-2014 on short-term funds for 38 and 37 per cent of their assets, suggesting they would be among the banks facing the greatest risk from the measures suggested by Tarullo.[27]

The shadow banking system was, in 2015, much bigger than in 2008. Since 2013, more than half of the credit issued has been by shadow banks. Nothing has been done so far to regulate hedge funds.

The incentive structure in the financial sector has not changed. Shortly after 2008, bonuses based on short-term performance indicators were already at pre-crisis levels.[28] Related to this, risk-taking did not diminish. A panel of top US regulators warned that the big banks that are providing cheap credit and count on government assistance in case of failure, are taking excessive risks that might jeopardize financial stability.[29]

The *Financial Times* (11 November 2013) noticed that during 2008–13, the mood on Wall Street changed from vigilance to recklessness in borrowing and lending.

The profits of the financial sector recovered soon after 2008 and in Q1 2013 profits were the highest since 2001.[30] This does not say very much about the health of banks because profits are inflated by government subsidies: for example by offering extremely low interest rates that are not passed on to bank customers. Banks have become black boxes where it is extremely difficult to see whether they are profitable or loss-making and what leverage they have. Most Wall Street bankers still cannot answer basic questions about their balance sheets. Structured investment vehicles and hedge funds linked to banks usually do not appear on balance sheets. Big banks also seem to be too big to manage. The opaqueness of accounting makes it more difficult to detect fraud. Balance sheets of banks are increasingly difficult to compare. Banks use different historical time periods in order to calculate value at risk, which is the crucial component for determining book capital requirements. Some banks use one year of data, others go back as far as five years.[31] The stress tests for US banks appeared to be unrealistic. There is an allowed debt-to-capital ratio of 25:1 (before 2004 the SEC required 12:1).

Very little has been done so far to regulate the obstructive role of accounting firms in the financial sector.[32] Nobody controls them. They are co-responsible for the massive fraud occurring in the financial industry.[33] A system of revolving doors links accounting firms, banks and regulators.

Nothing has been done so far to change the role of rating agencies and the conflicts of interest they face.[34] The rating agencies that are 'essential cogs in the wheel of financial destruction', as the government-appointed Financial Crisis Inquiry Commission described them, managed to become even more profitable.

Banks again are keen to buy toxic assets (often against a 50 per cent discount) from the Fed, which had bought these assets for the full price.[35] Derivatives trade is already higher than in 2007–08. 'Swaps contracts', in which counterparts agree to exchange cash flows from two financial products, exceeded $400 trillion in 2013.[36] By comparison: the value of the US stock market is only $23 trillion. The five US banks that together accounted for 95 per cent of all derivatives trade globally have fought to block other banks from entering the market, and they are also trying to thwart efforts to make full information on prices and fees freely available.[37] The Dodd–Frank Act required the banks to put all derivatives through exchanges by the middle of 2011, but this deadline keeps getting pushed back to some unspecified date in the future. Wall Street lobbyists managed to water down the provisions of Dodd-Frank to such an extent that derivatives trade will remain largely unregulated. A loophole remained that allows US banks to conduct derivatives trade in foreign affiliates, unregulated by US law.

In the United States student debt more than tripled between 2004 and 2012, and was $1.3 trillion by early 2015. Student loan debt is the only kind of household debt that has continued to rise since the onset of the Great Financial Crisis, and it is now the second largest after mortgage debt. As with sub-prime mortgages, securities are being based on bundles of student loan debts.

One issue not tackled by Dodd Frank is the fact that, in 2014, 40 per cent of all trades in the United States took place in the dark, in so-called dark pools, away from exchanges (these trades constituted 16 per cent in 2008). This practice provides institutional investors the opportunity to swap large blocks of shares without allowing the broader market an opportunity to trade against the investor. In fractions of seconds shares are bought or sold or options are placed. By doing so share prices can be easily manipulated. High-frequency traders buy faster access to trading information, allowing them to rig the market at the expense of slower traders such as pension and mutual funds.[38] High-frequency trading has exploded since 2008 to reach, in 2012, 70 per cent of the volume of the stock market and 99 per cent in 2013 (Lewis, 2014). Just as hackers search for and exploit operating system and application shortcomings, high-frequency traders do the same thing. As Lewis (2014) points out, 'it institutionalized a more pernicious inequality. A small class of insiders with the resources to create speed were now allowed to preview the market and trade on what they had seen'. On 6 May 2010 a 'flash crash' occurred when a computer, used for high-frequency trading, was a major cause for a one-day sharp decline in the stock exchange. Through a computer malfunctioning, Wall Street trader Knights Capital lost $440 million in one day.[39] Big banks are colluding with high-frequency traders. The new infrastructure of the stock market is built in such a way so as to facilitate high-frequency traders. So far nothing has been done against high-frequency trading while the danger of a stock-market crash caused by a computer is becoming greater every day.[40] Also, volatility on the stock market has been increased sharply by the activities of high-frequency traders.

One means of helping the banks was quantitative easing. Very cheap money was poured by the Fed into, above all, the big financial institutions that have been propped up in this way. Cheap money could be used for liquidity or buying sovereign bonds with a higher yield or making riskier investments. With the third round of quantitative easing (2012), the Fed promised to buy up, each month, $40 billion of toxic assets, mainly subprime mortgages, showing that despite earlier bailouts a lot of these toxic assets were still on the balance sheets of banks.[41] In the United States these cheap Fed loans allow banks to economize annually $83 billion because they do not pass on the cheap money to customers. Out of this subsidy, $64 billion goes to the top five banks.[42] Cheap money has been used to prop up the stock markets, facilitating a new wave of mergers and acquisitions and a revival of the junk-bond market. A large part of the additional liquidity was leaked abroad, in this way fueling bubbles in the Global South. A large part of the money received by banks by selling toxic assets to the Fed was used to create excess reserves with the Fed, above the statutory amounts the Fed requires in accordance with the law. Before quantitative easing started, these excess reserves were very small. By 17 April 2013 they amounted to $1.8 trillion, which is money that is of no use.[43] The US Congress wants big banks to accumulate more equity instead of relying on cheap Fed loans. Analysts at Standard & Poor's estimated that the six biggest banks in the United States – JP Morgan Chase, Bank of America, Citigroup, Wells Fargo, Goldman Sachs and Morgan Stanley – would have to raise nearly $1.2 trillion in additional capital to meet the proposed legislation's requirements.[44]

Quantitative easing, all together amounting to $4.5 trillion, channeled money to the accounts of creditors but did nothing for the accounts of debtors. Quantitative easing and bailouts kept zombie banks alive. Quantitative easing, which ended in 2014, substituted for interbank lending that dried up. It did not push banks to lend more and did not help very much in reviving the economy. The CEOs of 887 large companies in the United States found that lower interest rates would not really affect their investment decisions.[45]

A lot of the banks' money is poured into the shadow banking system, especially hedge funds and private equity funds. Private equity funds transformed into major bankers in their own right, although they are not regulated. For example, the loan portfolio of Apollo Global Management, one of the biggest US private equity groups, amounted in 2013 to more than $100 billion (it was $4 billion in 2007). The *Financial Times* commented (14 February 2014): 'The great irony of the post 2008 regulatory clampdown is that by forcing established banks to become safer, regulators have given wings to a gaggle of new financial players – with potentially unpredictable consequences'. According to Leon Black, founder of Apollo Global Management, 'There is no institutional memory in Wall Street. It's an environment where loans are abundant'.[46] Record-low interest rates are encouraging investors to buy riskier securities in search of yield. According to Bain & Co Consultancies: '[C]apital superabundance will be magnified as yield hungry investors raise to pour capital into assets that show the potential to generate superior returns'. And: 'The bulk of the deal making has little to do with the real economy'.[47]

A great deal of credit is created in collateral chains, as IMF researcher Singh (2012) argued. But the shadow banking system, which supplies about half of credit, was by mid-2013 about $11.2 trillion short in collateral under stressed market conditions, according to the Treasury Borrowing Advisory Committee of the Securities and Financial Markets Association.[48]

The bankruptcy of MF Global in 2011 showed how rotten the financial system still is. MF Global was an investment firm, headed by former Goldman Sachs CEO Jon Corzine, who placed a single bet of $6.3 billion, six times MF Global's capital, driving the firm's leverage to a ratio of 40 to 1. With the MF Global bankruptcy the repo lenders and derivatives traders removed all the assets pledged to them. Investors were left without any money, and deposits have been plundered.[49]

Why was the policy response after the start of the Great Financial Crisis of 2007–08 so different compared to the policy response to the Great Depression? To begin with, the Great Depression of the 1930s was much deeper and affected the real economy much more. But indebtedness was less in the 1930s. In 1929, total outstanding credit was 160 per cent of GDP. By 1932 it had risen to 260 per cent of GDP. By contrast, the United States entered the crisis in 2008 with a total debt of 385 per cent of GDP. In 1932, President Roosevelt came to power with the clout to take on the banks. Bankers were exhausted and provided little resistance. Since 2008, the situation is exactly reverse. Banks have become more influential. In the 1930s, there had been a paradigm change in economic thinking, while nowadays economic orthodoxy still reigns supreme.

The Fed and Treasury continued their policy of failure-containment instead of failure prevention in financial markets (Panitch and Gindin, 2014, p. 248).

Fraud continues

One of the reasons for the misbehavior of financial institutions was that the regulator stopped regulating and policing. After 2008 the Fed continued to act as the lobbying organization for the big banks while covering up the misdeeds of Wall Street. For example, in 2012 a Fed bank examiner, Carmen Segarra, was fired because she refused to alter evidence that showed illegal activity by Goldman Sachs.

The lack of regulation and monitoring also allowed the prolongation of fraud on a massive scale. Since 2008, a long series of frauds came to the fore. According to Thomas Ajanic, a plaintiff's lawyer who represents fraud victims, 'Theft, Ponzi schemes and other financial scams continue to happen at an alarming rate'.[50] The list of frauds committed by banks gets longer and longer. Many banks have been fined for misbehavior, but not prosecuted, while the fraud was usually not uncovered by the regulator.

JP Morgan Chase ignored the Volcker rule (in the framework of the new Dodd-Frank legislation) that is supposed to prohibit speculative trading, and used $350 billion of customer deposits to speculate with derivatives in its subsidiary in London. Subsequently, three traders at JP Morgan caused losses of more than $6.2 billion. Then the bank misled the regulators, who, in a settlement, fined the bank $920 million.[51] In the course of 2013, JP Morgan paid more than $20 billion in fines related to settlements, mainly in relation to knowingly bundling toxic loans and selling them to unsuspecting investors, but also for failing to inform the authorities about the Ponzi scheme of Madoff, a client of JP Morgan, and manipulation of energy markets. The fines and settlements did not very much affect the profitability of JP Morgan.

Regulators in the United States always settle in cases of fraudulent behavior with financial institutions, in order to avoid a court case. A US Senate report showed how billions of dollars were laundered by HSBC into the United States for drug barons and terrorists.[52] HBSC was fined only $1.9 billion, which is five weeks profit. There is still fraud with mortgages, and there is fraud with improper foreclosures. Wells Fargo-owned Wachovia Bank agreed to a mere $160 million settlement in 2010 in a deferred prosecution agreement after admitting to laundering upwards of $368 billion for Colombian and Mexican drug cartels. This means for Wachovia a fine of 0.05 per cent of the amount of laundered money.[53]

Big banks have been involved in rigging the LIBOR rate, the rate at which banks are borrowing from each other. By doing this they could, for example, manipulate interest rate swaps. These swaps are globally a $426 trillion business. Early 2013, US Attorney General Eric Holder admitted that some banks are too big for the Justice Department to prosecute, that prosecution might hurt the US and even the global economy.[54] But knowing that they are 'too big to jail', the big banks can act with impunity.

Consequences for the real economy

The crisis of 2007–09 brought to an end a decade-long period of private-sector debt growth. Households and the financial sector starting deleveraging,[55] but the credit-market-owed debt of nonfinancial corporate business increased from $6.3 trillion in 2007 (Q4) to $7.6 trillion in 2014 (Q4, FRED, May 2015).

The US government speaks about a recovery since June 2009, but empirical evidence does not point to a recovery. GDP is reduced by an understated measure of inflation. If calculated according to the methods used in the 1980s, inflation would not be close to 0 per cent, but close to 7.5 per cent (2015).[56] The official measure of the unemployment rate is declining because it does not count discouraged job seekers who have given up looking for employment. In 2014 labor force participation hit the lowest level since 1978 (63 per cent). Highly paid jobs are being replaced by low-paid jobs, and since 2008 the number of temporary jobs jumped by 50 per cent (12 per cent of the workforce was by mid-2013 on temporary contracts).[57] The official unemployment rate in June 2015 was 5.3 per cent, against 5 per cent in 2007.

In 2013, the median income of American households was 8.6 per cent lower than in 2007 (US Census Bureau). No data series indicates an economic recovery. Neither consumer confidence, payroll employment, nor average weekly earnings indicate economic recovery.[58] US polls showed in May 2015 that only 43 per cent of Americans said they believe the economy is getting better, while 52 per cent think it is getting worse (Gallup).

The stimulus package implemented in 2009 had little effect. In the United States it consisted mainly of temporary tax cuts and transfer payments. Only $88 billion of the $787 billion stimulus package was in direct purchases of goods and services by the federal government.[59] However, the bursting of the housing bubble in 2007–08 left a gap in annual domestic demand of more than $1 trillion.[60]

Banks stopped lending to the real economy, which is being strangled while unregulated shadow banks are re-leveraging their portfolios. The major customers of banks have become other financial institutions, which often use the loans for speculative activities or to acquire as much tangible property and ownership rights as possible, at the same time lobbying with governments to keep the flow of cheap money going.

The large business enterprises hardly need financing from banks. They are not short of money. Under President Obama, corporate after-tax profits have grown from $1.2 trillion in 2009 to $1.8 trillion in 2013.[61] US companies hoard $1.7 trillion in cash, 64 per cent of which is held overseas.[62] But investments are at historical lows. The link between investments and profits has not been restored. Enterprises are borrowing record amounts of money on the bond market in order to spend record amounts at repurchasing stock in order to push up share prices and, indirectly, executive pay.[63] Companies in the S&P 500 Index increased their spending on dividends and buy-backs to a median

36 per cent of operating cash flow in 2013, up from 18 per cent in 2003. Over that same decade, those companies cut spending on plants and equipment to 29 per cent of operating cash flow from 33 per cent in 2003.[64]

From private to public debt

Under President Obama the public debate started to focus on government debt that was considered by both the Democratic and Republic parties to be out of control. However, the burden of government debt cannot be considered a big economic problem. The German government spends more, in per cent of GDP, for debt service (1.6 per cent for the United States, 2.0 per cent in Germany, 1.4 per cent in Japan, and 2.6 per cent in the UK) (2011).[65] Here, it should be kept in mind that empires always have been big debtors. For example, Great Britain had been deep in debt since the 16th century. What matters is the debt service burden and the ability to raise cheap money. In the United States, government interest payments are, since 2008, at historically low levels. According to Paul Krugman:

> Federal debt as a percentage of GDP fell steadily from the end of World War II until 1980. Indebtedness began rising under Reagan; it fell again in the Clinton years, but resumed its rise under the Bush administration. The increase in public debt was, however, dwarfed by the rise in private debt, made possible by financial deregulation.[66]

Government budget deficits declined from 12.9 per cent of GDP in 2009 to 4.1 per cent in 2013 and 2.8 per cent in 2014.

While welfare for corporations and the rich (through tax cuts) expanded enormously, and the banks got their gigantic bailouts, the big debate in the United States is about further cuts in welfare for the many, although social spending is financed by the Social Security tax and does not contribute to the deficit. The Social Security Trust Fund has a $2.7 trillion surplus.[67] On the other hand, the *New York Times* (14 April 2013) estimated that all kinds of special tax provisions amount to some $123 billion a year, and that the price tag for offshore tax loopholes is not far behind.[68]

Federal revenue today is lower than it was 60 years ago.[69] Government spending is around 23 per cent of GDP, including mandatory transfer payments, like Medicare, while taxes account for 16 per cent of GDP.[70] The Bush tax cuts for the rich took away taxes worth around 2.5 per cent of GDP.[71] The wars with Iraq and Afghanistan cost $6 trillion, adding to the national debt.[72]

More worrisome than the federal debt are municipal debts, which increased during 2010–13 by 70 per cent to reach $3 trillion in June 2013.[73] Many municipalities are now deep in debt and faced with bankruptcy while forced to cut essential services as fire departments and education. Even pension funds are looted in order to pay off municipal debt. For example, Chicago has a municipal debt of $63,500 per household.[74] All together debt threatens to bring down 100 US cities. The fiscal squeeze of government on all levels hit the infrastructure that has been deteriorating for several decades. A 2005 study found that fully a quarter of bridges were structurally inadequate or obsolete. US investments in highways and streets peaked at $100 billion in 2001 and then gradually declined to $65 billion in 2012, the lowest level since 1945.[75] The United States spends only half the amount on infrastructure as does the EU.[76] The American Society of Civil Engineers estimates $2.2 trillion is needed to get the country's infrastructure into good shape.[77] As Krugman noted:

> We have the need: our roads, our rail lines, our water and sewer systems are antiquated and increasingly inadequate. We have the resources: a million-and-a-half construction workers are sitting idle, and putting them to work would help the economy as a whole recover from its slump.[78]

In fact, like any other Central Bank, the Fed could transform part of government debt, as far as the Fed keeps Treasury bonds on its books, into perpetual interest-free obligations, thereby monetizing part of the US government debt.

Unlike public debt, private debt is diminishing. But the US economy as a whole is still highly leveraged and a way out through debt-fueled growth is out of the question. Yet, the policy remains that of fueling asset bubbles through quantitative easing and cheap credit. It will make the necessary structural adjustment only much more difficult.

3
The Variety of Capitalism and Neoliberalism

All across the advanced capitalist world neoliberalism spread, from the Anglo-Saxon countries onward. Here, the interplay of endogenous and exogenous forces that brought about neoliberal change in five advanced capitalist countries will be analyzed, up to the Great Financial Crisis. Although convergence towards neoliberalism occurred, still a variety of capitalism is very pronounced.

Three very different coordinated market economies have been chosen (Japan, Germany and The Netherlands), along with two very different liberal market economies (the United States – analyzed in Chapters 1 and 2 – and the United Kingdom).

Bretton Woods and the variety of capitalism

The era of neoliberalism was preceded by three decades of unfolding national capitalisms – decades characterized by a relatively stable international economic environment. After World War II a consensus emerged that the state should play an important role in stabilizing the economy by counter-cyclical policies but also as owner and regulator. Industrial policy should, among other things, create national champions and protect strategic industries.

The postwar boom in Western Europe was helped very much by the Marshall Plan, which also pushed these countries towards closer cooperation. The United States and other victors decided that the experiences of World War I should not be repeated with its humiliating Treaty of Versailles that created immense resentment in Germany and prevented the German economy developing.[1] Instead, after World War II, Italy and West Germany were included in the concerted effort to build up the West European economies and received Marshall Plan assistance.[2]

Economic growth in Western Europe, and the expansion of social services, lowering of unemployment and rising wages, was also seen as a means to undermine the potential attraction of the Eastern European 'socialist' experiment. Governments pursued redistributive policies. This was, of course, also related to the strength of organized labor.

With US support, and helped by the Korean War, Japan was resurrected on the basis of state-led development and import substitution.

In 1945, for the first time since the emergence of capitalism, global trade relied on one currency linked to a single hegemonic power within the capitalist part of the world.[3] Despite US hegemony, Western nations had monetary sovereignty.

In the framework of the Bretton Woods agreements, exchange rates were fixed (although devaluations were allowed if needed) and linked to the dollar, which in turn was linked to gold, fixed at a stable price in dollars. Also, capital inflows and outflows were strictly regulated, and this was deemed good economic policy. The period 1945–75 constituted the era of national capitalisms in which the economies were to a high degree shielded from outside potential disturbing influences. Britain, for instance, limited overseas investments by its residents until 1979. Also, protectionism was at much higher levels than nowadays. The United States accepted this as far as it was allowed to invest in these countries. Despite barriers to trade, growth rates in the countries of the Organisation for Co-operation and Development (OECD) averaged 3.5 per cent a year in the period 1961–80, basically during Keynesianism, and 2 per cent a year during 1981–99, that is, during the period of emerging neoliberalism.[4] In developing countries (excluding China) the equivalent figures were 3.2 per cent and 0.7 per cent.

The end of Bretton Woods

Partly as a result of the United States printing money to finance the war in Vietnam, the world was flooded with dollars and the link between gold and the dollar was increasingly questioned. US gold reserves dwindled. After France asked in vain for the conversion of dollars into gold in August 1971, the United States officially ended the convertibility of the dollar in gold. This signaled the end of the Bretton Woods era and the period of fixed exchange rates. As a result, within two years the value of the dollar against the German mark and French franc declined by, respectively, 30 and 20 per cent.

Also, in 1974–75 the postwar boom came to an end. Falling profit rates rallied the industrial bourgeoisie against the power of trade unions. Gradually an anti-Keynesian consensus emerged that later would be named neoliberalism. It was a revolt against the postwar mixed economy.

Neoliberalism becomes the new consensus

Edwin Feulner, then president of the neoliberal think tank, Heritage Foundation, explained in 1993 'When we started with our work (in 1973) we were depicted as "ultra-right" or "extreme right". Nowadays, our ideas belong to the mainstream'.[5]

Feulner also served as president of the Mont Pelerin Society, which can be considered the birthplace of neoliberalism. This society, founded by Friedrich von Hayek, operated in the shadows. Prominent members founded several think tanks to further their cause. After the 1950s the term neoliberal was never used again by neoliberals, and there are also no foundational documents to which we can refer. Nevertheless, the outlines of the neoliberal creed that spread among elites across developed capitalism since the 1980s, can be summarized as follows:

- The state should not have a developmental role but merely a regulatory role. The state should above all protect private property and should be redefined in order to fulfill an auditing role (the audit society).
- Markets strive after equilibrium and are the most efficient allocation mechanism.
- Markets should be the main order-creating mechanism in society. Society should be subordinated to markets.
- The individual is the basic unit of society, and the pursuit of individual profit provides the best mechanism for the pursuit of the common good.
- Free markets further democracy, civil society and a pluralistic society. Economic freedom is the most important freedom, while freedom can only be 'negative', that means safeguarded from incursions by the state.
- Private enterprises are better run than public enterprises.
- More equality means less efficiency.
- The sole aim of the enterprise is creating shareholder value. Ownership rights should not be challenged by other stakeholders.
- All barriers to trade, investment and international financial transactions should be eliminated, also across borders.
- Economic interdependence in the context of a market-driven world economy breeds prosperity and furthers peace.

Many elements mentioned above can be found in the liberal tradition. New in neoliberalism is the claim that all human societies should become property-based liberal societies, the competition for inward investment, the belief that nothing should be non-market, and that there should be no distinction between market society and market economy.

The state is considered as a necessary means of coercion. The surveillance state under neoliberalism created a bureaucracy on its own. Neoliberalism wants to further an atomized society, and its aim is the destruction of solidarity. It accepts the social as far as it is not challenging power relations in society.

Neoliberal axiomatic assumptions are hardly subject to debate in the public discourse. Neoliberalism represents the interests of a relatively unified capitalist class and has not been challenged from within that class. However, it can be argued that especially financial capital finds its interests expressed in neoliberalism.

Neoliberalism borrows a lot from neoclassical economic theory that has become mainstream in Western academia. It acquired an aura of respectability through a series of Nobel prizes, given under the auspices of the Swedish Central Bank to prominent neoliberals. There was also the gradual capture by neoliberal/neoclassical economists of the most prestigious economic journals.

Neoliberalism is presented as dictated by economic necessities and based on conventional economic wisdom. Globalization is portrayed by neoliberals as a force of nature. As with any ideology, neoliberalism presents itself as the natural view on reality. Although neoliberals emphasize spontaneous market order, the state should be activist in the sense that the conditions for this market order must be constructed.

It should be emphasized that there is often an incompatibility between the ideology and practice of neoliberal governments. For example, there is on the one hand free-trade ideology and on the other hand protectionist practices of neoliberal governments and the acceptance of oligopolies and monopolies. Some authors (like Mirovski, 2014) emphasize that neoliberals deliberately created an ideology for the masses and a different theory for the elite.

Of course, neoliberalism has assumed many forms.

Japan: lost decades?

In many respects the Japanese experience stands apart from the rest of developed capitalism. Japan is a relative latecomer in the world of developed capitalism, and Japanese culture still retains many elements of a traditional society. This is also related to the fact that Japan is an island, ethnically homogeneous and has witnessed isolated development for many centuries. During 1879–1914 the contours of Japanese capitalism emerged in which warfare and a rudimentary welfare state went together (Ferguson, 2008, p. 206).

The strength of the labor movement in the immediate post-World War II period – and the threat of a socialist revolution in the early 1950s – induced the Japanese elite, as in Germany, to find a historic class compromise that promised workers a cohesive egalitarianism. It is also in this context that the firm is seen like a community rather than as anybody's property. In Japanese capitalism the rights of owners are limited in many ways by the rights of other stakeholders. This fits very well in Japan's cultural legacy in which harmony and consensus are extremely important, although Japanese society is very hierarchical (exemplified in the complex greeting rituals). In Japan the 'modal behavioral disposition' is geared towards cooperative rather than competitive, adversarial patterns of relations. According to Rosefielde (2002), 'shame based communalism' acts as a surrogate for Western modernity.

Japanese firms are linked to each other and to banks through cross-shareholder relationships that function as uncertainty-reducing structures. Firms usually operate within holdings that are an expression of 'a multi-stranded relationship, rather than a property right to be exploited to the full' (Dore, 2000, p. 34). The Japanese state always has been a developmental state, and Japan applied indicative planning and 'administrative guidance'. The MITI (industrial ministry) has been very important in elaborating plans for the restructuring and modernization of Japanese industry. Postwar Japan's industrial policy was that of picking winners.

However, there is no clear power center in Japan. It is often not clear who is in charge. Rarely do substantive discussions take place in government, and the function of government is to ratify decisions taken in bureaucratic structures. Responsibility on all levels is diffuse and accountability low. In many ways, Japan is not a modern society in the Weberian sense. Senior officials in the state bureaucracy are more powerful than government officials, and they force the corporate sector and government into compliance. The Japanese are market organizers rather than market organized. It is a visible-hand style of bureaucratic capitalism. The Japanese economy is hierarchically managed, and relationship networks are crucial. Foreign firms are not part of these networks. Therefore, the Japanese market is difficult to penetrate. The Japanese system is anti-competitive, related to the weak role of contract law, industry–finance alliances, sectoral cross-holdings and a mercantilist foreign trade policy.

Long-term relations between firms reflect reciprocal trust. Both markets and competition are embedded in co-operative networks that act as buffers against both instability and predatory practices. Japanese firms are less dependent on short-term equity capital than are their American counterparts and, therefore, takeovers of firms are less common. Ownership is concentrated, and dominant shareholders play a key role in management. Stock-market capitalization during 2008–10 in Japan was 127 per cent of GDP (up from 63 per cent in 1997), while in the United States it was 220 per cent of GDP (World Bank data).

Levels of inequality and social exclusion are relatively low in Japan – although expenditure on social spending is rather low in Japan, that is, 18–19 per cent of national income during the 2000s, while it was 32–33 per cent in France (OECD). But poverty levels have increased since the 1980s, and 38 per cent of the Japanese workforce is now in 'precarious' work.[6]

The Japanese tend to solve conflict by mediation. Solving conflict through courts is the exception. The United States has 17 times more lawyers per capita than Japan.[7] In Japan market institutions rely on networks of trust rather than upon a culture of contracts. However, fraud and corruption are widespread. Also, the Japanese mafia is influential.

The Japanese financial system has revealed major weaknesses since the early 1990s. The overvaluation of the yen was a contributing factor. The United States forced Japan in the Plaza Accord (1985) to strengthen the yen, because the inflow of Japanese capital into the United States created an overvalued dollar, and subsequently the yen increased in value by 51 per cent against the dollar during 1985–87. The result was that exports were squeezed and Japanese enterprises massively moved production to locations with cheaper labor, above all in East and South East Asia. Internally, Japan ran a cheap-money policy in order to boost demand and investments. Moreover, by the end of the 1980s the Japanese ministry of finance relaxed its supervision of banks while the latter were involved in speculative activities. Cozy and collaborative relations between banks and business contributed to the emergence of a speculative bubble. For example, the value of real estate increased by over 200 per cent during 1985–90. The bubble burst in the early 1990s, and commercial property prices subsequently fell by 87 per cent. The weakness was in the deregulated financial system, not in the industrial system. According to George Soros (2002, p. 156), '[W]hen financial markets [in Japan] opened up, the financial system frittered away the wealth that the industrial system generated'.

During the 1990s the fundamentals of the Japanese system came under scrutiny. This did not stop the government from applying Keynesian policies while pouring a lot of money into the ailing economy, usually in large infra-structural works. Unlike quantitative easing in the West after 2008, in Japan it reached the real economy and stimulated demand. Despite quantitative easing, there was deflation. While in the 1990s prices in Japan remained stable (during 2000–14 an average annual decline of 0.5 per cent), in the United States inflation during that decade was 27 per cent. One of the results of deflation was that the real value of debt rose and also reduced the value of collateral against which the banks can lend. As a result there has been no loan growth since the early 1990s.

Initially, government support kept zombie banks afloat and prevented them from restructuring. By the mid-1990s Japanese banks were faced with $1 trillion in bad debts.[8] It is telling that as recently as 1995 the world's top ten banks were all Japanese, while in 2009 only one remained in the top ten (Mitsubishi UFJ Financial Group).[9] In the early 1990s, lending by state-owned banks increased from 2 per cent of total lending to 30 per cent; $550 billion of taxpayer money was used to resuscitate the Japanese financial sector from 1998 to 2003.[10] By 2003 most bad debts had been removed and the banks recapitalized.

The Japanese financial system was and is largely bank-based, a system in which there is still a lot of attention to personal relations with borrowers, although Japanese banks never had significant abilities to monitor companies (Lazonick, 2010, p. 687).[11] There are similarities here with Germany, which also has a bank-based financial system and an export-led growth strategy. Japanese megabanks are politically less influential than the megabanks in the major European countries and the United States (Varoufakis, 2013, p. 185). In Japan, investment in manufacturing is still at a relatively high level (24 per cent of GDP in 2007, compared to the United States, with 16 per cent in 2007). With 57 per cent of GDP spent on consumption (2007) it is far below the level of the United States (70 per cent, 2007). As a result of the opening up of the Japanese economy, the value of shares held by foreigners increased from 6 per cent in 1992 to 13 per cent in 1998 to almost 28 per cent in 2008 (31 per cent in June 2014).[12]

Gross public debt in Japan increased from 66 per cent of GDP in 1991 to 238 per cent of GDP in 2012.

Since 1989, Japanese growth has been anemic. Japan accounted for 8.9 per cent of global GDP (PPP) in 1990 but only 4.5 per cent in 2014

(Statista.com). But Japanese exports increased during the 'lost decade' of the 1990s by 73 per cent; foreign assets also increased; and electricity use increased by 30 per cent. This does not point to a deep economic crisis. Japan continued to lead globally in most areas of high-tech manufacturing.

Labor productivity per employed worker increased in Japan during 2000–12 by, on average, 3.08 per cent a year, while in the United States by 0.37 per cent and in Germany it declined in the same period by 0.25 per cent.[13] When one looks at GDP compared with working-age population figures (defined as the population aged 20 to 65), one finds a surprising result: Japan has actually done better than the United States and most European countries. Japan's overall growth rates have been quite low, but growth was achieved despite a rapidly shrinking working-age population. The age dependency ratio (per cent of dependents, that is people younger than 15 and older than 64 years old) increased during 1990–2013 in Japan from 43 to 62 per cent, while it declined in the United States from 52 to 50 per cent (World Bank data). At around 70 per cent, the employment rate of the Japanese population is high compared to the OECD average.

Far from underperforming, Japan may have outperformed other leading industrial nations. It is also better protected against volatility in international financial markets (see Chapter 7). Neoliberalism has had a limited impact in Japan.

The United Kingdom: champion of privatization and global finance

During the 1940s and 1950s successive Labor governments nationalized many industries. Labor wanted to create a fair society from a shattered and divided nation. The result was that by the mid-1970s the United Kingdom had more nationalized industries than most other developed capitalist countries. Also, income distribution was rather equal (in the mid-1960s, more equal than Germany); but Britain was lagging behind most other Western European countries in terms of economic growth, and the factors contributing to this were summarized in the expression, 'the British Disease'. Part of the problem was persistent low investment ratios. During the 1970s the capital stock per worker was lower than that of other developed countries. Also, poor labor-management systems, poor work attitudes and low skill levels were cited as important shortcomings. Moreover, during the 1970s inflation rates soared. Social transfers skyrocketed in the United

Kingdom, from 10 per cent of GDP in 1960 to 13 per cent in 1970 and 17 per cent in 1980.

The 'Thatcher Revolution' (1980s) moved the UK socioeconomic system towards the US model. Margaret Thatcher, who became prime minister in 1979, implemented a monetarist macroeconomic policy that implied a reduction in the rate of growth of the money supply combined with less public-sector borrowing and less use of fiscal policy.[14] The government started to privatize public enterprises, such as British Telecom, British Gas, British Airways, Rolls Royce, British Steel, shipbuilding, British Coal, British Rail and the nuclear-power industry. This privatization policy was largely based on the notion that private ownership is in itself sufficient to generate efficient markets and efficient management. Related to this, the United Kingdom got the most deregulated labor market in Europe. Thatcher curtailed the power of trade unions. The breaking of the famous miner's strike of 1984–85 was symbolic in this respect. The United Kingdom was the only EU member to refuse to sign the social chapter of the EU legislation (1991).

Trade-union membership declined from 13.3 million members in 1979 to less than 6 million in 2012. British full-time workers nowadays work on average 42.7 hours a week, the third-longest workweek in the EU. It should be noted that in many other EU countries, the average working week became shorter. For example, France introduced the 35-hour workweek.

The United Kingdom introduced the most radical reform of the welfare state in the EU. With Margaret Thatcher, class divisions within British society became even deeper. The underclass of unemployed and workers on very low salaries broadened. While 9 per cent of the British population lived in relative poverty in 1979, it increased to 25 per cent in 1998–99 (and declined to 22 per cent in 2008–09).[15] With the Thatcher Revolution, society became even more atomized. Transfers to the poor diminished, while support for the business world increased. Nowadays, the top income tax rate in Britain is 40 per cent, while in France it is 53 per cent.

Thatcher introduced far-reaching reforms in the financial sector. With the Big Bang of 1986, the City of London was modernized, ensuring that it used the most up-to-date technologies (screen-based) and that barriers between the separate narrowly focused firms in the City were broken down so that all financial activities could, in principle, come under one roof. From 1986, investment banking took off. The City of London transformed into the world's financial pirate nest, in which everything that was forbidden elsewhere was done. Therefore, many US banks established offices in London from where they conducted their most risky operations. The City became the euro–dollar satellite of Wall Street. The City of London is also at the center of a global web of tax havens, mainly territories under the British Crown, that siphon off money from multinational enterprises and rich individuals across the world who want to avoid taxes and redirect funds to the big banks based in London.[16] The modern offshore system started in the City of London. Foreign banks hold 44 per cent of all banks' assets in the United Kingdom.[17] The contribution of the financial sector to GDP increased from 5.8 per cent in 1998 to 8.9 per cent in 2010; in the Eurozone the financial sector contributed 4.45 per cent to net value added (Eurostat, 2010).

Neoliberal policies did not result in a more competitive economy. British industry, especially, lost ground vis-à-vis its European competitors. Labor productivity improved mainly through shedding employees. In the 31 years before Thatcher came to office the economy grew by about 150 per cent; in the 31 years since, it has grown by little more than 100 per cent.[18]

More than in other EU countries, in the United Kingdom profits were diverted to shareholders. Between 2001 and 2010 the top 86 UK companies in the S&P Europe 350 index distributed 88 per cent of their profits to shareholders through dividends and share buy-backs.[19] UK industry started to neglect research and development and nowadays is lagging behind its main competitors in innovation. Autocratic management methods have been furthered by the increasing role of shareholders and erosion of workers' rights.

Since the early 1980s, the interests of financial markets in the City of London prevailed over the interests of industry. Britain has implemented a competitive cost-cutting strategy to attract foreign investment, which meant downward pressure on wages and labor-market flexibility. Britain sought thereby to fill a niche as a low-cost branch plant for foreign multinationals unlike Germany, which focused on competition on the basis of high quality, high investment and high skills. With this strategy Britain became more integrated and dependent upon globally oriented mobile capital – and one of the most globalized among the medium-sized powers. This globalization was actively furthered by consecutive British governments.

The social basis of the British state changed and internationally oriented finance capital became a dominant force influencing government policies. This was reflected in the increased status of those state agencies closely connected to the global economy, such as the finance ministry and the Bank of England. Agencies such as the ministries of welfare, labor and industry, with domestic constituencies, became increasingly subordinated. According to David Priestland:

> London's economic elites were masters of global networks, but less interested in developing the home economy – hence the frequent tensions between finance and industry. Merchant dominance also helps explain why Britain – unlike Germany – has never enjoyed the collaboration between finance, technocratic industrialists and scientists and workers that is so essential for stable growth.[20]

The UK variant of capitalism is characterized by a strong centralized state and few intermediate public institutions. The absence of strong regions in England is also conspicuous. Regional inequalities increased dramatically in the United Kingdom over the past three decades, while in many other EU states we can observe a reverse trend.

A conspicuous feature of Britain is its decades-long under-investment in public services, with the result that spending per capita and as a per cent of GDP for public transport, education and healthcare is far below levels of comparable European countries.

Output per hour of UK workers is 16 per cent below the average of other leading industrialized nations; it is 29 per cent lower than in the United States and 24 per cent lower than in Germany and France.[21] According to Turner (2001, p. 221), former chairman of the Confederation of British Industry, Britain's low productivity may in part be a consequence of the flexible labor market, which has helped to drive down its unemployment.

An important question is why the Thatcher revolution managed to bring about a radical change in society and economy, while this did not happen in other EU countries. This is related to the fact that in Britain the middle classes scarcely profited from the arrangements of the welfare state that Thatcher sought to attack, unlike in France and Germany, for example, where the middle classes had vested interests in the institutions of the welfare state. Another specific of Britain is that the class-ridden society never developed the sophisticated systems of interest-representation characteristic of the Northwestern Europe welfare states. Also, the centralist character of the British state made it easier to implement radical reforms. Apart from the first postwar decades, the country's economic development never has been state-led. Also, in its attitudes towards property, the financial system and market economy, British values are closer to neoliberalism, like those of the United States, than to continental European countries.

The advent of Labor to power (1997) did not bring a fundamental change in government policies. The Labor government continued deregulation of business. New Labor refused to roll back restrictive labor laws of the Thatcher era. Only after public outrage over the deterioration of public services did Labor governments start to spend more on public services, especially healthcare, but in the context of a drive towards involving the private sector in public services. The model New Labor had in view for Britain was inspired by a conservative agenda – and for the solution of Britain's problems it is looking, like the Conservative Party, towards the United States.

New Labor managed to privatize industries that the previous conservative governments did not dare to touch.

There was, for example, the privatization of air-traffic control and forensic services. The London Underground was privatized under a scheme that was very expensive for the state. The Conservative–Liberal coalition in power since 2010 was even more obsessed with privatization. Privatized industries often proved to be no more effective than public industries. Privatization of energy utilities resulted in the creation of monopolies at the regional level while, nationwide, six firms dominate the industry. This resulted in enormous rise in prices of gas and electricity, while the energy companies made windfall profits. Privatized water companies also constituted monopolies. During 2003–13 the price of water increased by 60 per cent, although water companies spent less on repair and maintenance.

The privatization of British Railways proved to be a disaster. The poor quality of services is notorious, while price hikes have made railways in Britain the most expensive in Europe. Britain's privatized railway now has 40 per cent higher costs and, though passenger fares have increased significantly in real terms, the public subsidy to the railways has more than doubled to £5.4 billion a year.[22]

In the OECD, the United Kingdom has been the champion of privatization. During 1980–96 the United Kingdom racked up 40 per cent of all assets privatized across the OECD. These assets were sold off far below market prices.[23]

As a result of privatization and deregulation, the proportion of British companies under foreign ownership soared from 6.6 per cent in 1969 to 53.2 per cent in 2013.[24] As a result of the growing role of shareholders in companies, the gross capital formation as a share of GDP gradually declined from the already-low level of 18 per cent in 1980 to 14 per cent in 2012, one of the lowest in the OECD (World Bank data). De-industrialization occurred faster than in most other OECD countries, a phenomenon reflected in a rapid deterioration of the balance of goods, which was only partially offset by an increase in the export of services.

As in the United States, economic growth became increasingly debt-fueled. In the 2000s the debts of households and firms exploded. UK total debt soared to more than 500 per cent of GDP (2012), the highest level in the EU and on a par with that of Japan. Total assets of UK banks amounted to five times GDP (in the US it is equal to GDP). Thanks to deregulation, international debt issues as a per cent of GDP exploded from 17 per cent in 1995 to 131 per cent in 2011 (WB data). Private debt soared to 343 per cent of GDP in 2014 (see Table 5.1).

Germany: reforms only partially dismantled German model

From the very beginning, the German state attached much importance to social and economic cohesion. Shortly after Germany was unified (1866–71), the first social insurance scheme was introduced and, in 1883, there was compulsory health insurance for industrial workers. In contemporary Germany, the importance attached to social and economic cohesion is partly based on the experience of the Weimar Republic after World War I, when economic chaos, widespread inequality and counterproductive austerity policies led to radical movements that would culminate in fascism and World War II. In this sense many Germans see a direct link between social and economic cohesion on the one hand and peace on the other hand. Historic experience led to a consensus among German politicians and economists about the need to regulate markets. In the postwar German constitution are enshrined the aims of social equity, stable currency, full employment, balance of payments equilibrium and stable economic growth. The German economy is based on the free working of the market with significant state intervention that should be compatible with the underlying market order. In Germany there is a high trust in state institutions.

Germany is a federal country, and although the role of the central government is important, power is devolved with important roles for the 16 state governments. Taxes are much higher than in the United States, and – in the sphere of education, health care, transport infrastructure and so forth – the national government finances much more than does the US government. Employees are much more protected than in the United Kingdom and the United States. Weaker regions get support. Hundreds of billions of marks were poured into the impoverished East Germany after its incorporation with West Germany in 1991.

The German economy can be described as a social market economy. It is also a negotiated economy in which economic policy is decided upon between social partners. The German model understands the market economy not as a state of natural liberty produced by deregulation, but as a subtle and complex institution that needs recurrent reform if it is to be kept in good shape.[25]

As in Japan, Germany has a bank-based financial system that is very much decentralized, unlike, for example that of the United Kingdom. Enterprises have close and long-term relations with their banks. Banks have an interest in the long-term survival of an enterprise. The typical German enterprise considers the bank and employees as stakeholders who should be committed to the development of the enterprise. By late 2012 Germany had 1,106 cooperative banks, 423 saving banks (among which 7 Landesbanken) and a group of large private banks, among which are Deutsche Bank and Commerz Bank.

Unlike the United States and the United Kingdom, consumer debt in Germany has not been fueled, and household debt is very low in an international perspective; during the past decade there even has been a downward trend (see Table 5.1). Private credit as a per cent of GDP remained rather low (195 per cent in 2014, WB data).

German capitalism is stakeholder capitalism. German corporate strategies generally reflect less concern with share price and profitability and greater concern with goals such as market share, technological superiority and employee security than is the case with British and American firms. The postwar German constitution specifies that 'property imposes duties. Its use should also serve the public weal'. (Hutton, 2002, p. 50). In Germany, pressures to achieve higher profitability and to pursue high-risk strategies are weaker, and countervailing pressures for conservative strategies are stronger. Employees are represented on the enterprise boards, and workers councils are to be found in every firm. Takeovers, and especially hostile takeovers, are less common in Germany than in the Anglo-Saxon world. German managers are less preoccupied with selling and buying pieces of their and others' enterprises. The extensive regulations in which German firms are captured do not, however, facilitate flexibility.

Many economists saw the slowdown in Germany's economic performance (during 1993–2000 the average annual economic growth was 1.8 per cent against 2.7 per cent in the prospective eurozone as a whole; unemployment surged to 5 million) related to the lack of liberalization. During the 1990s, there was a near consensus among economists – especially in the Anglo-Saxon world – that the German model was out of date. However, German economic growth during the 1990s was impaired by the unification with East Germany, where productivity was found to be only 30 per cent of that in West Germany. Also, demand management that could have stimulated economic growth was impaired by the restrictions of the European monetary union. But German growth rates in labor productivity were higher compared to that of the United States and Britain throughout the postwar period. In this respect it is important to note that Germany has another conjuncture with respect to economic policymaking than Britain. Whereas Britain started during the early 1980s with privatization of state-owned enterprises, Germany did this much earlier. By 1973 Germany had the most liberalized financial system among the leading capitalist countries (Panitch and Gindin, 2014, p. 146).

Germany continued to protect its industry. During 1995–2010 the share of manufacturing in GDP even increased somewhat, reaching 23 per cent in 2011 (for comparison, in France and the United Kingdom the share was around 10 per cent).[26]

Government and employers tried to keep unemployment low by labor sharing: that is, shorter working weeks and more part-time contracts. Also, government has extended worker participation to include smaller firms and has paid more attention to environmental protection, especially in the sphere of agriculture. The workweek became 37 hours in 2000. On the other hand, during the 1990s the Social Democratic government slashed taxes on top incomes (from 51 to 42 per cent) and taxes on profit to one of the lowest levels in the EU (from 40 per cent to 25 per cent). In Germany, revenue from corporate taxes has fallen by 50 per cent during the 1980s and 1990s, despite a rise in corporate profits of 90 per cent. Finance Minister Oskar Lafontaine's attempt to raise the tax burden on German firms in 1999 was thwarted by a group of companies, all of which threatened to move investment or factories to other countries if government policy did not suit them. Germany liberalized and deregulated, but in the context of a negotiated economy and the change was slower and less far-reaching than in the Anglo-Saxon economies.

Eighty per cent of German investment is financed from internal funds, and only 18 per cent of liabilities of German companies is owed to shareholders (2002), exactly the same per cent as in 1982 (Hutton, 2002, pp. 247, 248). The industrial tribunals created during the Weimar Republic were re-established during the 1950s and have been the cornerstone of German industrial relations since then, functioning without state interference.

EU policies serve to erode the German model by furthering deregulation and liberalization. This helped the propagandists of the Anglo-Saxon model, who are very vocal in Germany. Since the early 2000s Germany has tried to catch up with Anglo-Saxon banks. German banks grew anxious about their competitiveness, seeing banks in other countries trading in new financial products such as derivatives. They established a committee, drew up a wish list and submitted it to government, which complied (Mugge, 2005). It should be taken into account that there are relatively few actors in the financial sector, and this sector was scarcely scrutinized by outside actors. In 1998 share buy-backs were first allowed; in 2002 the corporate tax on capital gains from equity sales was abolished, while increasing the risk of hostile takeovers; in 2003 hedge funds and private equity funds were legalized; and the tax on stock-exchange dealings was abolished. It resulted, among other things, in a breakdown of the investment–profit nexus, and also net private investment has diminished since 2000 (see Treeck, 2008, p. 22).

Deregulation at the EU-wide level and monetary integration gave German banks the freedom to embark on a very risky lending spree, especially to peripheral eurozone states. When the EU Commission in 2001 forced the German government to abolish state guarantees for the Landesbanken, the period of high credit ratings ended, and with it easy profits. This led these banks into buying high-yield but risky assets abroad, often financial derivatives. More than other European continental banks, German banks increased their risk-taking. German casino capitalism manifested itself, above all, abroad, because at home regulations prevented excessive risk-taking. Especially the big private banks and Landesbanken started to gamble from 2004 onward. After the financial crisis erupted it was estimated that German banks had bought from US banks about $60 billion in CDO's based on subprime mortgages. By spring 2007, long after it became clear to everyone else that these assets had become toxic, German banks were continuing to buy these products. Lewis (2012, p. 181) explains this by the German preference for rules: the bankers had to make profits and the CDO's based on subprime mortgages still had an AAA rating. German banks also made use of tax preferences offered by other countries. For example, IKB bank (which developed from an obscure provincial bank into one of the major players in Wall Street) conducted operations from the state of Delaware (a tax haven within the United States) and Ireland (Lewis, 2012, p. 174). In August 2007, IKB had to be bailed out by the German government. The explosion in extremely risky foreign lending was facilitated by the

European monetary union and the completion of the single market. There was a boom in German acquisitions and lending abroad. German net assets abroad amounted to about 3 per cent of GDP in 1999, but 40 per cent in 2012. Since 1990 German investors have lost about €400 billion abroad.[27] On the other hand, the private debt of nonfinancial corporations decreased in Germany, unlike most other advanced capitalist countries, from 127 per cent of GDP in 2000 to 113 per cent in 2008 to 107 per cent in 2012.

In 2002 the German government (Social Democratic–Green coalition) introduced a far-reaching labor-market reform (Hartz reform). Under this reform an ancillary labor market was created that was dominated by low wages and not subject to social rights. The rationale was that it should always be more rewarding to work than to be dependent on the state for benefits. To this end, benefits were cut. Since the Hartz reforms were introduced, inequality has increased faster in Germany than in any other OECD country.

The neoliberal reforms barely affected the dense network of medium-sized German industrial enterprises, often family-owned, which are still embedded in a large network of often-cooperative banks. These Mittelstand firms still constitute the backbone of German industry. While German industry has enjoyed record export and profit growth, ordinary Germans have not profited very much since 2000. For most Germans real wages and living standards have not risen for 20 years, and Germany's once-envied welfare, health and pensions system is being dismantled. This should be seen in the context of strongly rising wages since the mid-1990s in most other EU countries and also against the background of low household wealth in Germany relative to other EU countries. Germans have started to save more (savings constituted 24.2 per cent of GDP in 2012; Japan's were 22 per cent; the United States, 13 per cent) while investing less (20 per cent as a share of GDP in 1999, 17 per cent in 2012). Germans started to neglect infrastructure at home and, from 1991 to 2012, Germany reduced its budget for transport infrastructure by 20 per cent – for example, investment in German infrastructure was 1.5 per cent of GDP in 2012, compared to an EU average of 2.5 per cent (Eurostat).

The Netherlands: disruption of cooperative ties

Together with the United Kingdom, the Netherlands constitutes the oldest parliamentary democracy and also the oldest modern capitalist nation-state. Here, finance capital has a long history and long after the imperial power of the Netherlands attained its summit, the country's financial power has remained prodigious. For a long time it financed the major powers in Europe.

In the 18th and 19th centuries the attitude of the Dutch bourgeoisie was conservative, and a rentier mentality was prevalent. Industrialization took off rather late. During the 20th century there was a catching-up and, by mid-20th century, there were a significant number of Dutch multinationals, such as Philips, Shell (Dutch–British), Unilever (Dutch–British) and DSM. Traditionally, the Netherlands was very much dependent upon trade for its wealth and traditionally pursued free-trade policies. For a long time the Netherlands has been a major exporter and investor. Currently, the Netherlands is the world's 16th-largest exporter. Especially during the 1990s, there was a Dutch spending spree abroad, mainly directed at the United States. Not taking into account the role of foreign investments of shadow financial institutions, Dutch outward foreign direct investment amounted to $650 billion (late 2013), which places the Netherlands in the top-ten foreign investors worldwide. One important explanation for this record is the important role of multinationals in the Dutch economy.[28]

The Netherlands also stands out for the strength of its cooperative movement. In this respect it is close to the Rhineland model. The movement's origins can be traced, as in other Northwest European countries, to a corporatist tradition and to the medieval guild system. Cooperation also developed because of the *polders* (reclaimed land that was formerly under water), where competing farmers had to work together to manage the flow of water and protect against flooding. Since the 19th century, cooperatives have played a major role in transforming Dutch agriculture into the most productive in the world: 22.5 per cent of Dutch exports (2010) consist of agricultural products. Dutch competitors in this sector cooperate in order to compete globally.

Cooperation is also a key concept in Dutch industrial relations and politics. Coalition governments are common in the Netherlands, while consensus-building, on all levels, and often through complicated procedures, is at the core of Dutch politics (the polder model). Also common in each economic sector are agreements between government, employers and employees about wages and labor conditions. Worker representation is widespread in the Netherlands. This cooperative feature of Dutch capitalism seems out of touch with the pronounced streak of individualism in Dutch culture – a characteristic it shares with the United Kingdom and the United States and is rooted in the long history of marketization.

However, since the early 1990s, many of above-mentioned characteristics have eroded. The influence of trade unions and, generally, organized labor, has sharply diminished, partly due to infighting.

Deregulation of the financial sector allowed this sector to boom and to take on much more risk, at home and abroad. There have been many acquisitions abroad. Nowadays the size of Dutch banks equals six times Dutch Gross Domestic Product. The leverage of ING bank, became 49/1 in 2008 (in 1975 its maximum leverage was 12/1). Notably, in 2011 Dutch shadow banking was larger, as a share of its total financial sector (45 per cent), than in any other country (the United States was at 35 per cent).[29] Most Dutch shadow banks (66 in number) are linked to big international banks that are increasing their leverage by using these shadow banks.

De Nederlandse Bank observed proudly that with only 5 per cent of Europe's population, the Dutch had 37 per cent of European securitization (meaning trade in derivatives).[30] The vulnerability of the Dutch banking system is shown, however, in the fact that the total sum of external loans and deposits of Dutch banks is $1,412 billion, while the sum for much-bigger Germany is $2,878 billion and for Japan $2,581 billion (BIS, 2011). International debt issues increased from 24 per cent of GDP in 1995 to 172 per cent in 2011 (WB data); in Germany it was 29 per cent and in the United States 49 per cent.

The contribution of the financial sector in total net value added in GDP increased from 6 per cent in 2001 to more than 8 per cent in 2012; in the EU this share stayed constant at 5.5 per cent, in Germany the share in 2011 was 4 per cent, in the United Kingdom 9 per cent (Eurostat).

The Dutch financial sector was very much affected by the Great Financial Crisis that erupted in 2007–08. The Dutch government had to support the major banks and nationalized ABN-Amro and SNS.

Deregulation of the economy also affected semi-public institutions such as schools, hospitals, health insurance and housing associations that were allowed to manage their finances as they liked. Making semi-public institutions more independent was seen a means of economizing. Often, schools and hospitals did not have enough money to renovate and build real estate and were therefore pushed into the hands of bankers who asked hefty fees. Semi-public institutions started to buy financial derivatives in order to diminish risk with their investments. Even municipalities started to gamble. For example, they bought plots of land with borrowed money, sold it to real estate developers who built offices, with borrowed money – offices that few needed (15.4 per cent of office space stood empty in mid-2012).

Until the 1990s, associations cooperated with each other and government in order to offer what they saw as public goods. From the 1990s onward, the EU increasingly tried to ban these forms of cooperation, which were seen as barriers to competition. EU policies furthered the liberal model and undermined the corporatist model. The Dutch government wholeheartedly supported the EU in this.

In 1994, for example, housing associations that had assets worth €200 billion, were privatized and began borrowing from banks (their total loan portfolio is €70 billion), but not only in order to invest in housing. For example, Vestia, the biggest association, invested €256 million in the restoration of the ship SS *Rotterdam* that served as a tourist attraction (it was sold in 2012 for €20 million). Many associations started to buy financial derivatives that they did not understand. For example, through intermediaries banks bribed the bookkeeper of Vestia to buy interest derivatives. Vestia lost €7 billion on these derivatives and only could be saved by the financial guarantees of other corporations and a trick of the ministry that saved the company's housing stock from foreclosure by the banks by bringing the housing stock into a special-purpose vehicle. Only in this way could the social housing sector in the Netherlands be saved. But Vestia is not alone. Directors of housing associations gave themselves outrageous pay increases while often gambling with the association's money. The regulator had warned, already in 2003, about the risks of financial derivatives, but to no avail.[31]

Marketization of healthcare resulted in soaring costs between 2000 and 2012 (11 per cent of GDP in 2012, 7 per cent in 2000). Per capita healthcare expenditure in the Netherlands is nowadays the highest in the EU.

Also, pension funds became more independent and less regulated. As a share of GDP, the Netherlands has one of the biggest pension pots in the world: €1,100 billion in 2015; the assets of private pension funds increased from 70 per cent of GDP in 1990 to 136 per cent in 2010 (European Commission, 2013). While, until the 1990s, most capital was invested in the Netherlands, by 2013, after deregulation of pension funds, 86 per cent is invested abroad (in the UK, pension funds are still obliged to invest in the pound sterling). Before 1989 pension funds mainly invested in domestic social housing and Dutch treasury bonds. Increasingly, pension funds became engaged in speculation, on their own behalf, for example with trade in foreign currencies and financial derivatives, or through investment funds. The latter are partly based abroad, mainly the City of London. In this way pension funds supported the emergence of Dutch casino capitalism. All this happened without any coverage by the media and while representatives of trade unions were sitting on the boards of pension funds.

In the Netherlands, foreign companies acquired a dominant role. Especially British and American equity funds found rich pickings in the Netherlands. In the World Investment Report, the Netherlands was in 2007 one of the top three destinations for big mergers and acquisitions. On average, 70 per cent of Dutch shares are in foreign hands. About half of Dutch shares rapidly change owners. The selling off of big Dutch enterprises to foreign buyers is part of a process of de-nationalization that started after World War II. Too often enterprises that are important for Dutch public life are the ones that are sold. The major Dutch liberal newspaper, *NRC Handelsblad*, was taken over and milked by British private equity fund, Apax, and saddled with €120 million in debt.[32] The Dutch government does not see it as its task, unlike most other EU governments, to protect strategic industries.

The growing role of shareholders was reflected in less investments. While during the mid-1990s the Netherlands investment ratio was mid-range among the OECD countries, by the mid-2000s it slipped towards the lower range.[33] As far as there was investment it was increasingly non-productive. Real estate investment funds had in 1989 a loan portfolio of €193 billion, in 2012 it was €1,380 billion (while nonfinancial corporations borrowed €560 billion). If we include household mortgages, by 2012 there was €2 trillion in debt that was largely used to buy up existing real estate. This means that most of the debt in the Dutch economy has been used to change ownership of existing assets. This reveals the casino character of contemporary Dutch capitalism. Nowadays, private equity firms buy up firms with, on average, 70 per cent borrowed money, loading the purchased enterprise with debt, milking it, and selling it soon afterwards for a good profit (van Duijn, 2015, p. 136).

The gross savings of nonfinancial corporations increased from 3–6 per cent during the 1980s to 8–12 per cent during the 2000s (van Duijn, 2015, p. 43).

Also, current account surpluses of the Netherlands increased. During 1980–2011, Dutch current account surpluses averaged 4.9 per cent. In 2013, they attained 10.3 per cent, the highest in the eurozone. This reflects weak domestic demand, high saving ratios and high capital exports.[34] Despite relatively low public debt (69 per cent in 2013) and high current account surpluses, the Dutch government has since 2010 pursued a policy of fiscal tightening. According to an editorial of the *Financial Times* (4 December 2013), the Dutch obsession with austerity is suppressing growth. 'Only fiscal expansion will restore the patient to good health'.

The Netherlands has also developed, since the 1980s, into a major tax haven. In The Netherlands shareholders do not have to pay tax on dividends or capital gains when they sell shares; there is also the possibility of striking lucrative deals with tax authorities. The Netherlands has an extensive network of tax treaties (about a hundred) with other countries in other to avoid double taxation. According to De Nederlandse Bank, 13,795 postal box firms let €8 trillion flow through the Netherlands.[35] Google, for example, pays tax of only €2.7 million in the Netherlands instead of $2 billion to the United States. Seventeen of the 20 largest Portuguese companies redirect their profits to holdings located in the Netherlands.[36]

Dutch households and enterprises have been indebting themselves on a massive scale, unlike in Germany. The Dutch were stimulated to take out large mortgages because mortgage expenditures can be deducted from income tax. It also became easier to obtain large mortgages, often higher than the value of the house. Mortgage lending exploded. The total Dutch debt reached more than 400 per cent of GDP (June 2011) and was the second highest in the EU after the United Kingdom. Gross household debt related to income of households attained 250 per cent in 2012 – 186 per cent in 2000, by far the highest in the EU; 97 per cent was the average for eurozone countries in 2012 (Eurostat). Many homeowners nowadays have underwater mortgages and are trapped. On the other hand, the three big banks that have together 84 per cent of the mortgage market (2012) – it was 77 per cent in 2003 – made easy profits by keeping interest rates much higher than in neighboring countries. Apparently, free competition on the mortgage market does not work in the Netherlands. The Dutch government denies there is a cartel here.

In 2013 household consumption expenditures as a per cent of GDP reached a low of 45 per cent – 50 per cent in 2000; for comparison, in the United States it was 68 per cent, Germany 56 per cent, the United Kingdom 64 per cent, and Japan 61 per cent (World Bank data, 2013).

Compared with other corporatist states (Belgium, Austria and the Nordic countries) the Dutch shift to the market was very fast. While taxes as a per cent of GDP diminished in the Netherlands from 42.9 per cent in 1990 to 38.6 per cent in 2012, the mean for corporatist countries went slightly up, from 43.7 to 44.1 (OECD data).

The Dutch economy performed well in a European perspective during the 1990s, but growth was debt-fueled. Since the financial crisis erupted, the Dutch economy has performed less well, also compared to comparable European countries, and by early 2015 had not recovered from precrisis levels. As far as there was growth, it was mainly export-led.

The Dutch economy witnessed a rapid transition from a typically coordinated market economy to a liberal market economy. It is notable that there has been no industrial policy since the 1980s. There are, however, still some elements of a coordinated market economy, such as the negotiating mechanism in the economy.

Transformation of the firm

Although neoliberal change occurred across developed capitalism, the variety of capitalism is still very pronounced, also at the firm level. US and UK firm organization can be characterized as outsider systems that are typified by developed stock markets and a decentralized market approach, while insider systems (examples, Germany and Japan) rely on banks and a more centralized and administrative approach. In the Anglo-Saxon model there is a sharp separation between the state and enterprises. In principle, the state should not interfere in the internal processes of the enterprise. In the United States and the United Kingdom, property rights are without obligations.

Equity markets in the United Kingdom and the United States are characterized by dispersed ownership of financial institutions mainly interested in increasing share prices; ownership in Germany and Japan is highly concentrated in the hands of stable actors with a long-term strategy. In the United Kingdom and the United States employees have a very weak voice in corporate decision-making, unlike Germany, where a corporatist system of representation gives employee representatives formal participation rights, although employers clearly remain in charge. In US corporate law there is no guidance as to how a company should be governed. In the United Kingdom and the United States the main aim of enterprises seems to be extracting wealth to the benefit of shareholders. In the Anglo-Saxon perspective, trade unions only inhibit the autonomy of management.

The shareholders' revolution in the United States meant not only an increasing role for shareholders in companies, with the accompanying squeezing of companies by shareholders. The behavior of shareholders changed. In 1965 American pension funds kept shares on average 46 months; in 2000 a large part of the portfolio of these institutional investors was exchanged on average after 3.8 months (Battes and Elshout, 2008, p. 37). Generally, in liberal market economies, enterprises were faced with more volatile behavior of investors, while these investors showed less loyalty to firms. Their only interest is short-term profits, while the long-term sustainability of the firm is of no concern.

Related to this is the increased risk of hostile takeovers. The greater the influence of hot money, the greater the ability of enterprises to take risks. Increasingly, large groups of personnel were shifted to fields in which they did not have expertise and were grasping in the dark. This is also related to the fact that managers increasingly became obsessed with quantitative targets while they themselves increasingly had little knowledge of the fields they were managing. Competencies of lower-level personnel were more and more ignored. In flexible shareholders' capitalism, craftsmanship has become a nuisance. In shareholders' capitalism, everything transforms from an industry, in which the main aim is to make something and to make money doing it, into a business in which the sole purpose is making money.

The shareholders' revolution also led to a managerial revolution in which management layers became thicker. The share of managers in the working population is 13.5 per cent in Canada, 13 per cent in the United States and 11. 5 per cent in the United Kingdom, but only 2 per cent in Norway and 6 per cent in the Netherlands – in most continental European countries the percentage varies between 2 and 5 per cent (1984–1997) (Kleinknecht, 2009). The Kleinknecht study (2009) revealed that the hire-and-fire mentality prevalent in liberal market economies is disastrous for the loyalty of employees.

The impact of shareholders in coordinated market economies was biggest in internationally oriented, especially foreign-owned, firms.

Trends across the OECD

Across the OECD countries, neoliberal change during the past three decades was very uneven. The United States and US led international institutions exerted pressure, but this pressure was amplified internally through a confluence of interests.

Throughout the OECD countries, nonfinancial corporations have been increasingly involved in investments in financial assets and financial subsidiaries and have derived an increasing share of their income from them. There also has been increasing financial-market pressure on nonfinancial corporations.

Common across the developed capitalist world is that short-termism in the corporate world has intensified. McKinsey interviewed a thousand managers across the world, and 63 per cent said pressure has increased in order to attain in the short term a maximization of profits.[37] Although three quarters of interviewees admit that a long-term strategy is necessary, almost half have a company strategy for at most three years.

Profits as a share of GDP in almost all OECD countries increased, along with executive pay. Corporate taxes diminished across these countries. Almost everywhere inequality increased. The share of wages as a share of GDP diminished all across Western Europe and the United States, but not in Japan and South Korea.[38] According to an IMF study (Kumhof et al., 2012), one of the major reasons for this trend is the declining influence of trade unions.

Based on the wage data of 36 OECD members, the ILO estimates that since 1999 average labor productivity has increased more than twice as much as average wages in developed economies (ILO, 2013, p. 46).

Throughout the OECD countries the role of banking increased enormously. During the 1960s banking assets amounted, on average, to about 50 per cent of GDP; by the late 2000s it had increased to about 200 per cent of GDP.[39] As Orhangazi (2008) has shown, the fast-growing financial sector is detrimental to productivity growth and has a negative impact on investment.

Despite the trends towards neoliberalism, the variety in developed capitalism is still striking. On the one hand, there are the liberal market economies, like the Anglo-Saxon countries, and on the other hand, the coordinated market economies, like Germany and Japan. With the liberalization of capital accounts, imbalances within advanced capitalism increased, with coordinated market economies generally accumulating current account surpluses while liberal market economies had current account deficits.

Coordinated market economies generally succeeded better in protecting industries, which is partly related to the fact that they did not totally abandon industrial policies. They maintained higher investment rates.

The average job tenure in the United States is 6.6 years, in Germany 10.6 years and in Japan 12.2 years (Greenspan, 2007, p. 271). Also, the role of capital markets differs widely. The United States has the most highly developed capital markets in the world. The combined market capitalization (total dollar value of all stocks) of the Nasdaq OMX and NYSE Euronext is nearly $16 trillion – more than the next six largest exchanges combined (March 2010). The size of Deutsche Borse is a *mere* $1.3 trillion.

Japan and Germany intensified their export-led growth model while the United States and the United Kingdom had a debt-fueled, consumer-led growth model. Among other things related to this phenomenon, external imbalances across the developed capitalist world deepened. External vulnerabilities increased, but great differences remained with the United Kingdom and Japan as two extremes among the medium-sized and large economies. The institutional makeup of coordinated market economies such as Japan and Germany led them to pursue more prudent and cautious macroeconomic policies. In liberal market economies, the system of interest representation is generally more weakly developed and gives government more leeway to pursue risky social and economic policies. The financial sector in coordinated market economies is more cautious at home, despite deregulation, while willing to take more risks abroad. In Germany and Japan institutional constraints blocked the financial sector and households from the path of credit-fueled consumption.

Although financial depth increased across the board within advanced capitalism, coordinated market economies experienced less international financial integration (except for those within the eurozone), and financialization of corporations and households was less pronounced in coordinated market economies.

The contribution of the financial sector to total value-added increased substantially in liberal market economies, but not in coordinated market economies.

The cases of Germany and Japan, on the one hand, and the United States and the United Kingdom, on the other, show how differently the developed economies reacted to liberalization of international capital flows. Although paths have converged towards neoliberalism during the past three decades, path dependence of OECD countries still produced remarkable differences up to this day as the foregoing country analyses have shown.

Towards a market society

The march towards the markets was intensified during the 1990s, when 'socialism' in Europe had collapsed and 'there was no alternative' left. Parallel to the neoliberal turn in policies came the emergence of a new value system propagated by media and politicians. There was a shift from 'collective care' to one's 'own responsibility'. Individuality and 'authenticity' was furthered. Greed also became more acceptable, and poverty became more often associated with individual failure. Also, public and semi-public organizations were affected, and they began to be governed like enterprises, with management imposing targets, abolishing co-determination of employees and introducing performance-related pay while enhancing executive pay. Nowadays, the public sector itself is being reformed in most countries along the lines of 'new public management' in which the market is imitated. Management levels multiplied while managers created new accountability systems that involved more rigid control and a lot of paperwork. Instead of relying on the craftsmanship of public-sector workers, a control mania emerged at the hands of often-incompetent managers. The public workplace has been overwhelmed with assessments, monitoring, surveillance and audits, centrally directed and rigidly planned. Contracts and control replaced trust, loyalty, autonomy, enterprise and innovation. The multiplying of 'targets' destroyed the quality they are supposed to guarantee.

Many countries shifted from state-provisioned social security to private-market-based provision. This happened, for example, with a shift from pay-as-you-go public pensions to private pensions. It is a form of financialization of individual income. Financialization is part of a process by which various kinds of provisions against risk and the uncertainties of the future are organized via private capital market arrangements rather than through institutional arrangements (Stockhammer, 2010, p. 4). Another example is housing. In many countries, there has been a shift from state- or cooperative-provided housing towards private housing. The corollary of this process was greater indebtedness of households. Higher education used to be provided by the state in most OECD countries but, increasingly, burdens are shifted towards students. Another example is the shift from public to private healthcare. This process of financialization of individual households gave the financial sector enormous power. Financialization is mirrored in the increasing size of institutional investors. In the EU, for example, insurance companies have €7,700 billion in assets, pension funds €3,700 billion and retail mutual funds €1,700 billion.[40] It is remarkable that institutions that are associated with the welfare state, such as insurance companies and pension funds, transformed into major forces behind a casino capitalism that is undermining that same welfare state. Pension funds transformed from stalwarts of conservative investment into active participants in speculative finance.

During the first three postwar decades, a trend emerged of including the larger part of the working class in the middle class, at least as far as self-ascription is concerned. But the nature of the middle class changed and, increasingly, people became faced with job insecurity. For a larger part of the middle class, increasing inequality, associated with neoliberalism, brought about stagnation of living standards.

The notion of the public good was moved to the background as more public services became privatized. In a number of countries, even public utilities, such as water provision and air traffic control, have been privatized. The media became increasingly under the wing of big media conglomerates, while media managed by civil organizations became marginalized or abolished. Even civic organizations such as housing associations became commercialized. The values of finance capital penetrated all corners of society, degrading the public sphere. This has led to the commodification of almost everything, including scientific knowledge.

Another common trend in the developed capitalist world is the de-politicization of the economy. This happened through institutional innovation in which nongovernmental private and public institutions can decide about matters that formerly saw elected politicians make the decisions. An example is a country's monetary policy being relegated to a central bank. On top of this, all across the developed capitalist world corporate power managed to increase its influence on government, not only related to increased lobbying but also due to increased leverage related to globalization.

Generally, interest representation in Western societies has weakened. Membership in trade unions has declined, although the decline is very uneven, and that of political parties has declined drastically as did membership of other traditional interest-representing organizations. The proportion of employees who are members of unions ranges from between 53 and 74 per cent in Scandinavian countries and 52 per cent in Belgium to 35 per cent in Italy, 22 per cent in the Netherlands, 19 per cent in Germany and only 8 per cent in France (2008–10).[41] As Streeck (2014a) has noted, across developed capitalism there was a trend of de-democratization through de-economization of democracy by shifting economic power to unaccountable institutions.

Embedded markets

In the way we described economic developments during the past three decades in selected countries, it becomes obvious we cannot describe the economic systems of these countries just in terms of market economy in which cultural and historic specifics are treated like externalities as does mainstream economics. There is a variety of state–economy relations that deeply affects the working of the economic system as does the variety of industrial relations and property regimes. Often, the cooperative aspects in the economy are rooted in cultural and historic specifics, while the competitive elements are related to the market elements. The turn towards neoliberalism and financialization in all these economies has undermined the cooperative elements in each economy. But, in a well-functioning economy, cooperation is as important as competition. This is not to suggest that all non-market elements in the economy are conducive to economic growth, but economic development is not conceivable in pure capitalism. Capitalism in itself is destructive and tries to impose the rule of capital irrespective of social needs. Capitalism can only be productive if embedded and constrained by society – that means well-regulated, while the mode of regulation is country-specific.

As Wallerstein, and Rosa Luxemburg before him, has argued, capitalism so far has only functioned in the context of other, often pre-capitalist forces that could restrain capital. Different production methods can co-exist, and capitalism can only live surrounded by, and at the cost of, other production methods. Capitalism in the real world is above all in the context of a hierarchy of social formations, and it nestles at the top (see Braudel, 1990, p. 16). Capitalism can only thrive to the extent it is contained by counter-forces. Capitalism as such is driven by a single organizing principle, that is the profit-driven behavior of firms and individuals. But as Streeck (2014a) emphasized:

> social systems thrive on internal heterogeneity, on a pluralism of organizing principles protecting them from dedicating themselves entirely to a single purpose, crowding out other goals that must be attended to if the system is to be sustainable.

As the descriptions of major developed capitalist countries has shown, the variety of institutional settings is very large and deeply rooted in national cultures. The economic systems of these countries can only be understood in the context of national history and culture. This runs counter to mainstream economics and neoliberalism that suggest one optimal economic model for all countries.

The mainstream view of what constitutes a market economy is profoundly wrong, as is the recently created antagonism between the state and the market. The term 'market economy' is a conceptual prison.

Capitalism is an anonymous force that attempts to dis-embed the economy and grant it a central, autonomous and superior role in the formation of society. In this process, markets are merely vehicles to be used when profitable and to be ignored whenever a liability.

The process of dis-embedding national economies is most clearly visible in the EU, in which EU regulations function as crowbars for imposing neoliberalism.

4
European Monetary Union and Freedom for Capital

How neoliberalism became institutionalized

The Maastricht Treaty (January 1992) highlighted a turning point in the development of the EU and can be considered as the root of the present EU crisis. In Maastricht (the Netherlands) the monetary union was agreed. The negotiations for the Maastricht Treaty took place during upheaval in Central and Eastern Europe when the divide between Eastern and Western Europe was suddenly lifted, and the EU was faced with the historic challenge of uniting Europe. Nevertheless, the public discussions about the Maastricht Treaty were mainly about the question of whether Europe should move towards a federation. The decision was to abandon the federal option and to opt for an ever-closer union of sovereign states. The European Communities transformed into the European Union. With respect to the challenge of offering post-socialist Central and Eastern Europe the perspective of EU membership, there was the choice for expanding the EU instead of first deepening cooperation before expanding, so creating an institutional trap. All these discussions were taking place in the context of a mood of victory – that is the victory of 'markets' over the 'state'. Market fundamentalism spread quickly after the demise of communism in Eastern Europe. Increasingly, EU member states began to share the vision of a Europe of free markets. Market integration proceeded much faster than did integration in other spheres. The dominant view became that with a free market at the EU level, and by removing regulations at the national level, enormous productive forces could be released.

A major breakthrough had taken place in 1983 when French President Mitterrand gave up on his Keynesian program and turned to neoliberalism, thereby facilitating the later convergence of the EU towards neoliberalism. This, and the lobbying of the European Round Table of Industrialists (founded, 1983), gave a major push towards the accomplishment of the Single Market.[1] The Single Market and later Economic and Monetary Union was a project inspired by the theories of Hayek, who foresaw that a federation of sovereign states with a common economic policy and free movement of people and capital and no customs barriers inevitably would lead to liberalization (Hayek, 1939). He foresaw that it would also lead to less state and less democratic oversight. By the 1990s, the Commission of the EU was openly committed to privatization and deregulation as a matter of principle.[2] Fundamental in the EU were the four freedoms (freedom of capital, labor, goods and services) and the European Court of Justice often overruled member states when they attempted to shelter sensitive areas. As a consequence, market enforcing rulings dominated over market-correcting rulings (see Hoepner and Schafer, 2012, p. 25).

As Bernaciak (2014) has shown, the creation of a Europe-wide market space has not only 'limited EU member states' regulatory capacity but also opened the door for "regime shopping" and a "race to the bottom"'. The two major institutions charged with furthering the single market – the EU Commission and the European Court of Justice – are not subject to control by national constituencies. These institutions systematically put economic freedoms above other policy objectives.

Major advances were made in the EU-wide liberalization and deregulation in the sphere of transport and telecommunications, but the most rapid progress was made in the liberalization of European finance.

With market liberalization, industrial policy was blacklisted. The liberalization of labor markets (the Bolkestein service directive) enabled cheap labor from EU low-wage countries to directly compete with workers in better-protected labor markets. Enterprises from these low wage countries could employ their workers in other EU countries on a temporary basis, but under the labor conditions of the worker's home country. This had the consequence of social dumping. Black labor and fraud spread, enabled by deregulation and weak oversight, thereby undercutting the remuneration and protections of local labor.

Since the introduction of the single market, the emphasis was put on negative integration, which is integration by deregulation and removing barriers for the free market. As far as regulations on the European level were introduced, they were mostly minimalistic regulations, undermining better regulations at the national level.[3] Negative integration led to the erosion of a variety of national models of capitalism.[4] According to Lehndorff (2012, p. 7):

> The single market was a project for the imposition of a market fundamentalist utopia. It dis-embedded national markets while core elements of the EU single market contributed to destabilize existing models [of European capitalism-HvZ].

An 'internal market where competition is free and undistorted' is even a foundational principle of the EU constitutional treaty (2005, article 1–3-2). Politicians, experts and journalists ignored the possible consequences. But the decisions were in the interests of European big business that increasingly was influencing decision-making in the EU.

One of the problems of the EU is the capture by corporate lobbies, and the weakness of, democratic interest representation. A report published by the Austrian Chamber of Labor puts the number of lobbyists based in Brussels at 15–20,000, while 1,700 financial-sector lobbyists work at the EU level, 4 for every EU financial civil servant. The financial sector spent 30 times more on lobbying the EU than all trade unions, consumer groups and NGOs put together.[5] This highlights a massive imbalance between business lobbies and lobbies representing social and environmental concerns. There is also the trend of assuring that basic EU laws decided in the European Parliament are very general, while the secondary legislation is done within the corridors of the Commission, where lobbyists can influence the process to a great degree.[6] Seventy-five per cent of advisers who are members of European Commission expert groups and advise on legislation have direct links to the financial sector.[7] The Giovannini Group (1996–2000), consisting of representatives of the financial industry, assumed an important role in advising the Commission on deregulating the financial sector across the eurozone.

The flaws of the euro

The concrete shape of monetary union was the compromise between France and Germany after the latter incorporated East Germany (1991).[8] France consented to German reunification under the condition of acceptance of an EU monetary union, in this way hoping to contain German ambitions.[9] In return, the Bundesbank asked for a 'stability and growth' pact. Therefore, monetary union was the result of geopolitical considerations. According to the founding fathers of the euro, the currency union ought to deepen integration and make it irreversible.

The Economic and Monetary Union comprised an incomplete monetary union, anchored by the euro and the European Central Bank, but lacking an economic union. There was no banking union, no fiscal union and no shared economic governance institutions. Bailouts in order to rescue states were explicitly forbidden, but bankers felt free to take big risks in financing activities across borders, being confident about taxpayers' backing. There was also no coordination of economic policies. But the monetary union deprived governments of monetary policy. Monetary integration happened under German conditions. The European Central Bank (ECB) took the Bundesbank as its example, which means 'independent' of government interference. The only mission of the ECB was keeping inflation low, in line with German obsessions. Financial stability was of no concern, and the ECB ignored bubbles. Unlike other central banks, the ECB cannot lend to EU governments. In the eurozone, only private banks can finance budget deficits. This is a historical novelty that gives the financial sector extraordinary power over governments. For eurozone governments, financialization of government finances meant that borrowing became more expensive than anywhere else in developed capitalism.

The architecture of monetary union was also in line with 'Reaganomics', as elaborated by Nobel Prize winner Mundell.[10] In surrendering the exchange rate instrument, countries were pushed into a downward competitive spiral of low wages, low taxes and low social spending. 'Removing a government's control over currency would prevent nasty little elected officials from using Keynesian monetary and fiscal juice to pull a nation out of recession', Mundell said. 'It puts monetary policy out of the reach of politicians' (and) 'without fiscal policy, the only way nations can keep jobs is by the competitive reduction of rules on business'.[11] The European elites were determined to create institutional obstacles for any return to 'Keynesian' active macroeconomic management and insulate economic policies from democratic control by handing over monetary policy to an 'independent' central bank.

It was assumed that markets are functioning effectively and that for the eurozone only provisions for government spending, government debt and inflation should be in place. Convergence criteria were elaborated that EU nations should fulfill in order to be able to get into the monetary union. The belief was that real convergence of the EU economies was not necessary and could be sidelined as a long-term dream. All were assumed to obey the convergence criteria and the rules of the single market. The assumption was that imbalances could only emerge in the public sphere. Private capital flows should be encouraged within the EU. The EU made capital controls illegal in 1992.

Financial deregulation meant the proliferation of an unregulated shadow banking system, the increased leverage of European banks, the de facto privatization of money creation,[12] and an increasing role for private equity and hedge funds, 70 per cent of which are operating from London. The single market fueled the idea that national banks could only survive if they expanded across Europe and globally. Speculation in foreign currencies escalated. Also, banks increasingly bought exotic financial products, such as financial derivatives based on US subprime mortgages. European banks shifted their activities in the direction of trade in very risky products. The context of the introduction of the euro was the emergence of casino capitalism across Europe. This dimension is usually ignored in analyses of the euro crisis. Financial deregulation created a monster that fueled bubbles everywhere across the EU and was out of control.

Another problem that emerged during the 1990s was that Germany had to keep interest high because of enormous capital needs related to German reunification, while other EU countries were in recession and needed low interest rates. German rate hikes kept interest rates in other EU countries at a high level.

Already in the 1990s many problems emerged with the European Monetary System, in which exchange rates between EU countries were maintained at fixed levels. It happened that one speculator, George Soros, could push the UK to devalue the overvalued pound sterling. The bill for the British taxpayers was £4 billion. Also the Italian lira, the Swedish krona and the Finnish mark were forced to devalue (1992). The problem was that since the mid-1980s the cross-border flows of capital had more than tripled, while control over capital flows diminished. In the 1990s, private players could for the first time overwhelm powerful central banks. This situation has been used as an additional argument for monetary union. Instead of freeing capital controls at the end of the process of monetary integration, the EU did so at the start.

When the euro was launched there were already internal doubts about Italy and Greece. Italy, with its high national debt (104 per cent in 2000), was let in because it was inconceivable that a founder state of the EU would be left out. Those who warned against the shabby foundations of the euro were ignored or silenced.[13] Already in November 1991 Helmut Kohl warned that a currency union without political union would be absurd.[14]

Although the introduction of the euro was accompanied by a promise of enhanced growth, this did not happen. In the eurozone, growth during the 2000s was slower than during the 1990s and was debt fueled, facilitated by deregulated finance. From 2000, growth slowed down, plunging from 2007 onward.

Rise of finance and bubbles

Monetary union and the introduction of the euro gave an enormous boost to the integration of the financial sector. Savings in one country could now much more easily be transferred to other EU countries. Banks could avoid stricter national regulations, and most risky activities moved to places with least regulation, such as the City of London or Ireland. [15] This pushed cross-border lending and bubble creation across borders.

The currencies of peripheral eurozone countries entered the single currency with overvalued exchange rates, although they had persistently higher inflation rates than the northern eurozone countries.

A hands-off approach by regulators allowed an orgy of irresponsible lending. Foreign lending by EU banks increased from $6 trillion in 2000 to more than $25 trillion in 2008; in 2011 it was $17.5 trillion.[16] By 2008, debts of EU banks were three times as large as those of governments. In Ireland the total assets of the banking sector (as a share of GDP) increased from 262 per cent in 1997 to 715 per cent in 2008 and, in Austria, from 227 per cent to 379 per cent (Lapavitsas, 2012, p. 45). The major British banks more than quintupled their assets (Deloitte, 2012, p. 1). All over the eurozone, banking assets exploded.

German banks in June 2008 (that is directly prior to the international financial crisis) held the biggest international credit portfolio in the world – a sum of $4.6 trillion, followed by the French ($4.2 trillion) and British banks ($4.1 trillion).[17] Banks should have known about the shaky foundations of the heavily indebted Greek economy. The banks should have known that an external per-capita Irish debt of more than half a million euro was unsustainable. They knew the mass media would keep silent, and governments were ignorant. The EU and ECB turned a blind eye to the way banks gambled in foreign markets.

Due to CDS and increased leverage, the traditional banking system transformed into a giant casino that guaranteed mutually assured destruction in case of any major insolvency. Two developments enhanced systemic risk. First, there is re-hypothecation: the reuse of collateral in a chain of transactions that means the European banking system has huge liquidity requirements as soon as things go wrong. Second, there is a web of interconnections between bank balance sheets – interconnections resulting from cross-border lending that ties all Northern European countries to Southern European countries.

Divergence

Since the early 1990s Germany has tried to adjust to the extremely expensive reunification and began to liberalize its economy. German wages stagnated, while most other European countries saw substantial wage increases. The German economy could expand thanks to exports, two thirds of which went to other EU countries. Also, some of Germany's neighbors implemented an export-led growth strategy. On the other hand, many countries on the eurozone periphery had a debt-fueled growth strategy, especially since the introduction of the euro. This led to faster growth in most peripheral countries.[18] Since, at the Madrid summit of 1995, the EU gave an irreversible commitment to the single currency, interest rates started to converge to the German level. On the eurozone periphery, the European Monetary System was equated with 'easy money soon'. This easy money was also facilitated by the globalization bubble. During 2000–08, per-hour labor compensation increased in Germany only by 13 per cent, while in Italy it rose by 26.8 per cent, in Spain by 35.2 per cent and in Greece by 47.7 per cent (Eurostat). These divergent unit labor costs were the consequence of ECB policies.

Living standards converged in the EU.[19] But below the surface, there was divergence, reflected in unit labor costs, current account balances and inflation rates.[20] During 1995–2008 Greek price levels increased by 67 per cent, those in Spain by 56 per cent, in Ireland by 53 per cent and in Portugal by 47 per cent. By comparison, the average price rise in the eurozone was 26 per cent, and in Germany only 9 per cent (Eurostat). Due to the inflow of cheap money, there had been less pressure on governments of southern EU countries to implement reforms. Therefore, underlying competitiveness in these countries worsened, which was reflected in, among other things, worsening export performance.

All together, northern EU banks lent €1.2 trillion to southern European countries, little of which was used for investment in productive assets. The debt-fueled growth in the southern eurozone countries and the export-led growth in northern eurozone countries are reflected in divergent capital flows (Figure 4.1). Because capital flows cannot directly be influenced by governments, current account imbalances in the context of a common currency but with different national economic policies are unavoidable. The free flow of capital functions as a lubricant for foreign

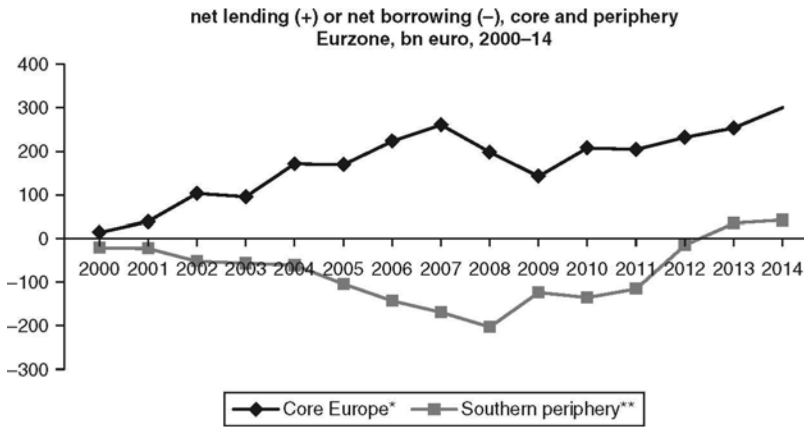

Figure 4.1 Net lending and net borrowing, core and periphery Eurozone, billions of euros, 2000–14

Notes: *Core Europe is Germany, the Netherlands, Belgium, Austria and Finland.
**Southern periphery is Greece, Italy, Spain and Portugal.
Source: Ameco.

economic imbalances that are at the core of the euro crisis. These imbalances cannot be addressed by a common fiscal policy.

Developments on the periphery until 2008

Developments in the indebted peripheral countries (PIGSI: Portugal, Ireland, Greece, Spain and Italy) show clearly how things went wrong.

Ireland

Ireland transformed from a poor country, which was heavily dependent on EU support, into a country with one of the highest per-capita incomes of the EU.· The 'Celtic Tiger' attained higher growth figures than any other eurozone country during the 1990s and 2000s. Most economists credited high educational levels and an efficient (and not corrupt) civil service. Also, deregulation has often been mentioned as well as low corporate tax rates. But the Irish concept of growth was mainly based on foreign direct investment (FDI) and on the country's attractiveness as a haven for foreign shadow banking. Above all US investors flocked to the country, and companies like Facebook, Google and Apple established headquarters there. In Ireland, total stock of FDI attained $247 billion (146 per cent of GDP: for comparison, the FDI stock in Japan was $200 billion; OECD, 2009). Irish tax policy facilitated more than a thousand multinationals coming to the country.

Easy money in Ireland fueled a construction boom. The average house price in Dublin increased by 500 per cent during 1994–2008; 25 per cent of Irish GDP derived from construction, while in the OECD this was on average about 10 per cent (Lewis, 2012, p. 110).

Deregulation of the financial sector went very far. Many foreign banks settled in Ireland and ran their most risky operations there. For example, German banks had in 2008 a €140 billion exposure to Ireland. The deregulated financial sector could offer very cheap credit to not creditworthy customers. By 2008 liabilities of Irish banks attained 700 per cent of GDP. It is remarkable that international institutions and mainstream media did not notice the extent and risk of Irish casino banking. They only pointed to low public debt (25 per cent of GDP in 2008). An Irish commentator wrote: 'EU banks queued up to lend to our reckless banks, while the ECB looked on benignly'.[21] A 2008 OECD survey of Ireland, written just before the bubble burst, concluded that 'the economic fundamentals remain strong'.[22] Until March 2009 Ireland had a triple-A rating, and a double-A rating until November 2009.[23] Nearly all Irish economists were unaware of the amount of private debt.

In March 2008 Merrill Lynch issued a report on the Bank of Ireland and Anglo Irish that was negative about them. After these banks threatened to take their business elsewhere, the original report (which had cost €7 million) was retracted, and Merrill Lynch toned it down to a seven-page research note that stated the two Irish banks were fundamentally healthy, profitable and well stocked with capital.[24] The Irish banking supervisor endorsed the note even though Merrill Lynch had a conflict of interest because it was the chief underwriter of obligations of Anglo-Irish (Lewis, 2012, p. 129, 134).

Greece

When the EU decided to accept the membership of Greece, geopolitical considerations were decisive. Greece bordered the Warsaw Pact countries and had a conflict-ridden relationship with Turkey, a fellow NATO member. EU membership talks started soon after Greek military rule was abolished. EU membership (1981) was expected to stabilize Greece. At the time the question was not posed whether Greece's clientelistic economy could be compatible with a rule-governed market economy as existed in other EU countries. Only during the 1990s were criteria formulated that could be used in assessing the readiness of applicant countries for EU membership (the Copenhagen criteria). The incompatibility of the

Greek economic system with that of the EU became even more topical as EU economic integration progressed. Of course, Greece was subject to the expanding EU *acquis communautaire*. But, too easily, it was assumed that EU legislation would also be implemented.

Greece remained a patrimonial country where patron-client relationships governed the economy. In Greece there are 70 closed professions. There is a hot market for licenses that give access to restricted activities. For example, a trucking license can cost about half a million euros. This can make it cheaper to transport a load by truck from Athens to Rome than from Athens to Thebes, 45 miles distant. The expensive license system makes many products much more expensive than in other EU countries.

Specific to the Greek economy is the enormous dominance of micro enterprises, usually family-owned companies. Characteristic, too, is also the extent and distribution of various forms of rent. Greece is a rentier nation.

State jobs and favors are exchanged for services rendered. Greece, with 11 million inhabitants, saw its civil service expand to 692,000. Greek foreign currency earners were shipping and tourism. Greece basically remained a nation of agricultural smallholders and small service businesses. Instead of markets, there are monopolistic structures that keep prices high. For example, farmers protest against the fact that potato production cost is €0.20 per kilo although merchants buy them for €0.10 and sell them for €0.70.[25] It is no surprise that Greece ranks number 100 worldwide in 'ease of doing business'. It is telling that in Greece the cost of building 1 km of road is the highest in Europe.[26]

The introduction of the euro gave a boost to the Greek economy. During 1980–2000 Greek interest rates were about 10 per cent, reflecting risk in the Greek economy. With the introduction of the euro the credit rating of Greece became the same as that of Germany, and credit could be easily and cheaply obtained.

Greece became the second-fastest-growing eurozone country during the 2000s. Growth was not based on a competitive economy, however, but on debt. Credits mainly originated from northern EU countries. This allowed Greek exports to be only one third of what it imported. The Greek current account deficit rose from €10 billion in 2002 to €51 billion in 2008 (16.3 per cent of GDP in 2008).

Tax evasion is rampant in Greece. Only 324 inhabitants of Athens mentioned on their tax form that they owned a swimming pool, but a satellite photo of Athens showed 19,974 swimming pools.[27] According to the tax office, in 2009 two thirds of Greek medical doctors earned less than €12,000 annually while the average salary in Greece was €29,160.[28]

Many in Brussels knew that the fundamentals of the Greek economy were in bad shape but, upon entry to the eurozone, Greece complied with the convergence criteria. Now we know that this happened by cooking the books. Goldman Sachs, among others, had cut a secret deal with the Greek government. Their game: to conceal a massive budget deficit. Goldman's fake loss was the Greek government's fake gain. Also, future income – for example from the state lottery, toll roads and landing rights – were securitized. Goldman earned a $300 million fee for its services.[29] On the part of Goldman Sachs, this deal was overseen by Mario Draghi.[30]

As in Ireland, the EU and international institutions were blind to mismanagement of the Greek economy. Well before 2009 the EU knew Greece's statistics were fiddled with: the EU found out in 2005 that from 1998 onward false data were declared by Greece.[31] The IMF warned mid-2009 about Greece in a draft report that never was published.[32] Meanwhile, foreign banks were busy giving large credits to Greece.

Spain

The Spanish economy profited very much from the liberalization of EU markets. The deregulation of finance allowed a construction boom that in turn fueled the Spanish economy. During 2000–10 30 per cent of all new houses in the EU were built in Spain (Mauldin and Tepper, 2011, p. 203). The Spanish boom attracted many immigrants. For example, 1.5 million Latin Americans came as immigrants to Spain during 1997–2007.[33] Spain had the largest number of mortgages per head in the EU. Over a decade, land prices increased by 500 per cent. Most of the money financing the boom came from Northern EU countries. It was above all private debt that surged – 73 per cent of Spanish foreign debt is private. Due to cronyism with banks, many non-viable projects were financed, but the EU, IMF and local regulators did not spot the bubble. In 2006, the European Banking Authority praised the dynamism of the Spanish financial system.[34] During the boom years taxes on high income and capital were slashed by successive Spanish governments, including the socialist one.

Although Spain's public debt remained manageable and within EU norms, public authorities participated in the spending spree. For example, the payroll for Andalusian civil servants went up 42 per cent during 2006–10.[35] Here, a particularity of the Spanish state comes to the fore. In Spain the regions have a large degree of autonomy and are responsible for education, health and social services, accounting for 57 per cent of public spending. The regional debt was €144 billion in 2010, while the debt of municipalities amounted that year to €48 billion.[36] Spanish overall debt was 363 per cent of GDP (2011).

Italy

Already upon introducing the euro, Italy did not conform to the EU convergence criteria. Its sovereign debt was far above 60 per cent of GDP (104 per cent in 2000).[37] Also, government deficits were dressed up by taking upfront payments from banks and through derivatives contracts under the direct responsibility of Mario Draghi, then heading the Italian Treasury.[38] Italy's private debt burden is relatively small (40 per cent of GDP). During the 1990s and 2000s Italy followed its protectionist instincts and wanted to keep control over its economy, but there was no industrial policy, and public services remained very inefficient.

During 1970–94 Italy had strong growth, and a welfare state emerged. Italy did not profit very much from the euro and did not experience a boom during the 2000s, while incomes stagnated. Through the eurozone participation it saved in interest payments but never incurred large amounts of foreign credit.[39] In 2015 Italy's GDP was the same as in 2001. Since joining the eurozone, Italy has exported much less than it imported. Since European monetary union started in 1999, productivity in Italy has *fallen* by 3.9 per cent, despite a decline in job protection, while it has risen by 8.3 per cent in the euro area as a whole.[40] The share of labor in GNP declined drastically. Nevertheless, unit labor costs rose sharply.

In Italy municipalities and regions accrued a lot of debt, many buying financial derivatives. Four Italian banks have been charged with fraud for their roles in a €1.7 billion financing package for Milan. Sudden defaults by local administrations could cause panic chain reactions. The case of Sicily is instructive. With a debt of €5 billion, the island is often characterized as Italy's Greece. Full-time government office staff totals 20,000, one for every 239 inhabitants, compared with one for every 2,500 in the northern region of Lombardy.[41]

Germany

As a result of monetary union and the introduction of the euro, Germany could easily outcompete most other EU nations and could increase its share in EU internal trade enormously. By 2012 it attained 36 per cent of intra EU trade. During 2002–07 more than 120 per cent of Germany's growth was due to exports. Germany succeeded in internal devaluation by depressing wage increases more than did other EU countries. During 1998–2011 GDP growth was sluggish, on average 1.4 per cent, related to stagnation of domestic demand.

Increases in German exports was to a large extent enabled by soaring demand in Southern eurozone countries, fueled by lending from Northern eurozone banks. Germany's cross-border lending soared after 1999, from about €80 billion to about €500 billion in 2008.[42] It transformed German current account deficits (during 1991–2001) into surpluses. Of Germany's trade surpluses, 60 per cent is with the eurozone and 85 per cent with the EU altogether (2009). The impact of these soaring imbalances, caused by private capital flows, would only become visible after 2008.

Post-2008: No fundamental reform of financial sector

The bankruptcy of Lehman Brothers (15 September 2008) immediately sent shock waves around the world. Many European countries had followed the lead of the United States in deregulating their financial systems and faced the same systemic risk. The European and US banking systems had become very much interconnected, through mutual lending and financial derivatives. This created, together with high leverage, a toxic mix.[43]

In East Asia, Latin America and a few European countries, such as Sweden and Finland, contagion was very limited, because they had been faced earlier with financial crises and had repaired their financial systems.

Many European countries followed the United States in bailing out their banks (see Table 4.1). Most European governments had a view on the financial crisis similar to that of the United States. Major banks were so interconnected and too big to fail, that one bankruptcy might cause a chain reaction that would not only endanger the national financial system but the global one as well.

Although since 2008 many EU bills have been adopted to regulate financial markets, very little has been achieved in addressing the main problems of the financial sector. For example, as in the United States, not addressed has been the problem of banks that are too big to fail. Despite a lot of rhetoric, inadequately addressed in most affected European countries have been: separation of investment and retail banking,[44] tax havens, recapitalization of banks,[45] dodgy accounting practices, role of rating agencies, regulation of speculative trading in currencies, incentive system of banks, taxation of financial transactions,[46] trade in

Table 4.1 Costs of bank bailouts, 2008–12 (billions of euros, per cent of GDP)

Country	Bailout(€)	% of GDP	Country	Bail out(€)	% of GDP
USA*	482		**Italy**	130	8.2
UK	873	50	**Greece**	129	59.9
Germany	646	25.1	**Poland**	68	18.3
Spain	575	53.6	**Latvia**	9	46.2
Ireland	371	365.2	**Cyprus**	5	27
France	371	18.6	**Portugal**	77	45
Belgium	359	97.4	**Netherlands**	313	52

Notes: *For the United States only TARP funds have been counted.

Source: European Commission.

financial derivatives, repo and hypothecation, high-frequency trading, naked short selling,[47] prosecution of fraud and re-criminalization of fraud (the too-big-to-jail problem). As in the United States, concentration and centralization in the financial sector strengthened after 2008. Nothing has been done so far to regulate the growing shadow banking system.[48] According to research, the banks that received state support have not become more cautious.[49] For example, the boom of bank lending to eurozone peripheral countries lasted until November 2011 (IMF, 2013B, p. 24).

Already in 2013, the German regulator had voiced concern about an increase in trade with risky and complex financial derivatives.[50] One of the problems is that, according to the WTO's financial services agreement (1999), WTO member states cannot ban risky financial products such as financial derivatives.[51]

The opaqueness of accounting makes it more difficult to monitor banks, and balance sheets of banks are increasingly difficult to compare.[52] The fact that big banks are subdivided into a multitude of entities complicates auditing. For example, Deutsche Bank consists of 2,000 legal entities with insufficient centralized knowledge about them (Lehman Brothers, just before the collapse, consisted of around 3,000 such entities).[53] The role of accounting firms has not changed, and they continue to have substantial influence on governments.[54] New regulations have been introduced, but the problem both in the United States and the EU is that the banking lobby sat around the table when these new regulations were negotiated. Financial regulation has not been fixed, just made more complicated. Regularly, governments announce intentions to reform the financial sector. Usually this is not followed by actions.

Also, fraud persists in the financial sector. For example, a trader at UBS Bank risked the very existence of the bank with a fraud of €8.4 billion. In 2012 it appeared that several big banks manipulated the Libor rate upon which other rates are based, thereby earning billions of dollars additionally, at the expense of the bank's clients. Outstanding derivatives contracts against Libor are around ten times the global GDP.[55] In 2013 suspicions emerged that the gold price, fixed every day by a group of five leading banks, is also manipulated.[56] It has been revealed that in some major banks senior management furthered money laundering.[57] As in the United States, senior corrupt bankers have not been punished for their misdeeds.

Europe's banking sector has been kept afloat by implicit state guarantees of virtually all liabilities. Although there is progress with respect to recapitalization of banks, it is lagging behind in Europe.

Japanese banks, during the period of deleveraging from the late 1990s to the mid-2000s, decreased their loan-to-deposit ratio from 95 to 75 per cent (Deloitte, 2012, p. 9). Similar deleveraging took place in Scandinavian countries during earlier financial crises. The loan-to-deposit ratio decreased in East Asia after the Asian financial crisis, from 120 per cent in 1997 to about 80 per cent in 2010. By contrast, the loan-to-deposit ratio declined at the largest banks in the EU by just 7 per cent during 2008–12 (Deloitte, 2012, p. 9). The ECB helped in slowing down deleveraging through its program of very cheap loans in exchange for shabby collateral.

Very little has been done, so far, to make banks more healthy. The ECB provided trillions of euros of cheap money for EU's big banks. Often, this money was put on overnight accounts of the ECB. ECB money prevented troubled banks from clearing their balance sheets and contributed thereby to the prolongation of the crisis. Only 13 per cent of the cheap money the ECB provided to peripheral Eurozone banks went to the real economy, while more than 50 per cent was spent on purchasing government bonds.[58] For example, buying up Italian government bonds with 6 per cent interest is a risk-free investment, guaranteed by the ECB. The same ECB provides money for 1 per cent interest or less. This means a multi-billion present from the ECB to Italian banks in order to keep up the appearance of solvency. Cheap money also contributes to increased indebtedness and deflation, as happened earlier in Japan. It functions as a drag on restructuring and also contributed to new asset bubbles. In this way zombie banks could be kept afloat.[59]

According to Weidman, president of the Bundesbank, '[W]eak banks invest in high yield sovereign bonds [that are] refinanced at currently low interest rates. Such carry trades sustain the low profitability of these banks and postpone necessary adjustment of their business model'.[60] Banks are protected by 'independent' central banks that function as lobbies for banks. What has emerged in Europe are banking states that are disciplined by financial markets. As the *International Herald Tribune* remarked, 'despite persistent unemployment, economic malaise and continuing debt problems, one sector in Europe seems to be benefiting: banking' (2 May 2013).

Banks are so rotten and interconnected that governments do not even think about bringing to the surface the extent of fraud and toxic assets. The EU decided to postpone the introduction of Basel III norms that require an 8 per cent capital base (compared to outstanding loans), which is already minimal and too low according to many analysts.[61] According to Alan Greenspan, a minimum ratio of banking assets in reserve of 14 per cent is necessary. Just before its collapse, Lehman Brothers had an 11 per cent capital ratio while Dexia, just before its first bailout had 10.3 per cent.[62] According to Basel III, banks must have enough capital on hand to cover riskiness of assets they are holding, done on a gliding scale according how risky loans or investments are. Banks themselves assess the riskiness. This seems to be an insufficient safeguard, as the subprime mortgage crisis showed when AAA-rated subprime mortgages were rated as very safe assets. A 2015 University of Portsmouth study found:

> It is evident from the results that the European banking system remains highly vulnerable and conducive to financial contagion implying that the new capital rules have not substantially reduced systemic risks, and hence, there is a need for additional policies in order to increase the resilience of the sector.[63]

European big banks typically have around half of their assets as trading assets. About half of these assets consist of derivatives (*FinanceWatch*, 2013, p. 14). Another financial firm is a counter party and often this financial firm is abroad. It is especially these derivatives assets that constitute a systemic risk in case of crisis situations.

Most big European banks are zombie banks. They know it very well and therefore have stopped lending to each other – although mutual lending has been the lifeblood of the financial system. They are also hardly lending to households and manufacturing and, by so doing, they are squeezing the economy. Zombie banks are also devouring healthy banks. Balance sheets of eurozone banks total €38 trillion. According to Buiter, chief economist of Citibank, €1–3 trillion is needed to de-zombie the zombie banks.[64] Not only are banks from the periphery of the eurozone in difficulty, but Deutsche Bank, for example, is exposed to $72.8 trillion (gross notional) in financial derivatives that function like a time bomb under the bank.[65] German banks, such as Commerzbank, are exposed to huge loans to the shipping industry, which is in crisis now, and these loans are still on the books for the original value. All across the eurozone, bad loans, which are calculated in different ways across the Eurozone, are being kept at book value, and this policy is encouraged by the ECB, which is accepting dubious assets as collateral for cheap loans.

There are still many toxic assets on the banks' books. Non-performing loans doubled in the EU during 2009–13. In peripheral Eurozone countries they increased, according to the IMF, from €230 billion in 2009 to €600 billion in early 2015.[66] PriceWaterhouseCoopers (PwC) estimated that in early 2015 EU banks held non-performing loans amounting to €1.9 trillion.[67] Non-performing loans are not only related to the Eurozone periphery. [68] There is a €1,600 billion exposure to Central and Eastern Europe (90 per cent of credits to Central and Eastern Europe are from EU banks).[69] European banks were also much more active with (risky?) lending to countries in the Global South. Sixty three per cent of credits extended to Latin America were by European banks (Asia and the Pacific: 46 per cent).[70]

The first two stress tests conducted by the EU showed the overwhelming majority of large EU banks in good health. Yet, soon after these stress tests, banks that were deemed healthy needed additional governmental injections.[71] The stress tests were not only a public relations stunt. The problem is also that banks are often black boxes. Over the past two decades banks did everything possible to obscure the books in order to boost profits and, in this way, be able to pay out bigger bonuses. With help of structured investment vehicles, a lot of assets and liabilities were put off balance. Often, what was booked as assets appear to be liabilities. And how to value toxic assets for which there is no market?

The third stress test, revealed in October 2014, covered 130 banks that have 83 per cent of the eurozone total banking assets; 24 banks failed the test (on the basis of data from December 2013). Italy counted nine failed banks. However, many questions remain with this test. The ECB found €136 billion in bad loans on the books (compare this with the €1.9 trillion of non-performing loans PwC counted; 2015, see above). Many elements of systemic risk (interconnectedness of banks, also across borders, the role of financial derivatives, the possibility of a sovereign default, too big to fail, too complex to resolve, the factor of deflation) have not been taken into account. Also, the new tier 1 capital requirements remain extremely low and leave the financial system still significantly exposed to small declines in asset values.[72] It is also remarkable that the four biggest Greek banks, kept afloat by the ECB, got the green light. It is possible that today's losses can be deducted from future profits (up to 30–40 years ahead), and future tax reductions gained in this way can be added to today's capital. Between 36 and 54 per cent of the capital base of the four large Greek banks consists of these future tax claims.[73] This trick also has been used in other PIGSI countries.

In Europe, 80 per cent of the financing of enterprises is through banks and, therefore, reform of the dysfunctional banking sector is extremely important. Especially, small and medium-sized enterprises (SMEs) are refused loans, above all in the peripheral eurozone countries. If SMEs are receiving loans, they have to pay in the PIGSI countries 6 per cent interest, while in Germany and France, 3.5 per cent.[74] It should be taken into account that SMEs account for 80 per cent of all employed workers in Italy, and 67 per cent in Spain.[75] Also, in more developed EU countries, the financial sector barely contributes to efficient resource allocation. According to Lord Turner, in the UK only 15 per cent of financial flows actually goes into 'investment projects'. The rest supports existing corporate assets, real estate or personal finance.[76] So far, the ECB measures taken to lower interest rates to almost zero per cent did not have a substantial impact on corporate lending.

The fact of the matter is that, by mid-2015, the financial system in the EU is as wobbly and dysfunctional as it was in 2008, while the root of the problem, deregulated finance, has not been addressed. But in the meantime millions of people have lost their jobs, public debt has mushroomed and the EU economy stagnated. This, after several rounds of bailouts.

5
The Euro as a Divisive Force

'Sovereign debt crisis'

In 2010 the epicenter of the Great Financial Crisis crossed the Atlantic, from the United States to the EU. In Europe in early 2010, attention shifted from the private to the public sector when it appeared that Greek public debts were not sustainable. The 'sovereign debt crisis' started here, and since then the mass media and governments have focused on public, not private debt. The perception of enhanced risk led the banks to ask higher interest for loans to heavily indebted peripheral eurozone states. The fear was a self-fulfilling prophecy because the higher interest rates caused an acute sovereign debt crisis. It reached a climax during 2011–12, when banks started to ask interest rates of more than 7 per cent on 10-year government bonds of peripheral eurozone countries. With debt-to-government income ratios of more than 300 per cent (Ireland 340 per cent, Greece 351 per cent, Portugal 302 per cent) these interest rates were unbearable (2012).[1]

The sovereign debt crisis also shifted attention from the need to reform deregulated finance. Popular support for financial assistance for peripheral eurozone countries was bought under the pretext of solidarity, while in reality it was the Northern EU banks that were saved. It was maintained that debt restructuring is out of the question, and that debtors have to honor their obligations. Banks used their influence with EU governments to convince them that if some countries, like Greece, could not honor their sovereign debt obligations, a catastrophe would occur. The banks asserted that it would trigger a chain reaction in which many banks, across Europe would fall. Through credit default swaps (CDS) most banks had insured their debts, above all with US banks.[2] This meant that if Greece could not pay €360 billion government debt, its impact upon financial systems in the EU and United States could be four times larger, through the multiplier of CDS. This is extortion on the part of the banks. EU governments are kept hostage while they equate saving the banks with saving the economy as such. In this way creditors are protected at all costs. The IMF did the same in the case of heavily indebted states in the South (see Chapter 6).[3]

In core Europe, there were no sovereign debt crises during the era of Keynesian demand management. In those times business enterprises still paid their fair share of taxes. It is also related to the fact that governments could borrow from their 'own' central banks at very low interest rates. Also, inflation used to devalue debt.

According to analysts of the Royal Bank of Scotland, out of €2.2 trillion in debt owed by Portugal, Ireland, Greece, Spain and Italy (PIGSI) to non PIGSI EU banks and institutions, €567 billion was government debt, €534 billion was loans to non-banking companies and €1 trillion to banks (2009).[4] French banks had the highest exposure to the PIGSI countries (€229 billion), Germany was second with €226 billion and British and Dutch banks follow with about €100 billion each. One bank, the German Hypo Bank, held €80.4 billion in public debt of the PIGSI countries on its books.[5]

As Table 5.1 shows, the greatest structural imbalances occurred in the private sector.[6] But, as the *Financial Times* (14 February 2014) reported, 'privately created credit backed money is thought sound, while government created money is not'.

Public-sector debt in the eurozone actually declined from 72 per cent in 1999 to 67 per cent in 2008, the year the Great Financial Crisis erupted (see Figure 5.1). In 2008, the so-called 'sovereign debt crisis' had not yet

Table 5.1 Composition of debt, selected EU countries, 2014, per cent of GDP

Country	**Households**	**Nonfinancial corporations**	**Financial corporations**	**Government**	**Total**
Ireland	85	189	291	115	681
Spain	73	108	89	132	502
Portugal	83	127	81	148	439
Italy	43	77	76	139	335
Greece	65	68	5	183	322
UK	86	74	183	92	425
France	56	121	93	104	373
Germany	54	54	70	80	258
Netherlands	115	127	362	83	687

Source: McKinsey 2015, p. 106.

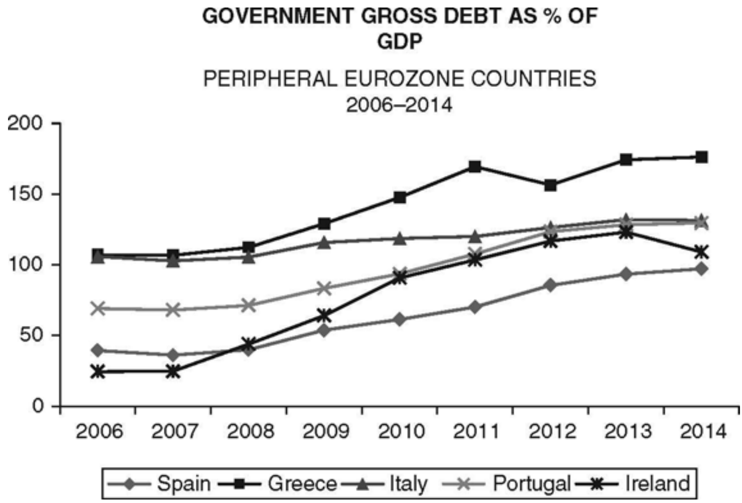

Figure 5.1 Government gross debt as percentage of GDP, peripheral Eurozone countries, 2000–14

Source: Eurostat

affected the EU. First, there was a crisis around insolvent banks that needed injections of taxpayer money. These bailouts increased public debt enormously.

EU crisis management: periphery

How could Greece, a country of 11 million inhabitants with an economy the size of about 2 per cent of the eurozone economy, trigger a 'sovereign debt' crisis that shook the whole EU even though, if taken as a whole, the EU government budget deficit and government debt are much smaller than that of the United States?

There are several reasons for this. The first is that Greece triggered a chain of events that revealed the structural weaknesses of the euro. Secondly, the too-slow responses of eurozone governments have intensified the sovereign debt crisis enormously. Moreover, the steps that were necessary to underpin a currency union have not been complemented by reforms in other spheres, while austerity policies actually aggravated the crisis. The root cause of the financial crisis – the accumulation of private debt, enabled by irresponsible banks – was not addressed.

One of the preconditions of a currency union is a principle of solidarity, which means a possible transfer of resources from one country to another. However, as Stefan Collignon noted,

> voluntary cooperation between sovereign and autonomous governments only achieves results in a small range of policy situations, where everyone can win. Initially, this logic has been the driver of European integration. However, with the completion of the single market and the euro, a far larger policy domain has now become competitive where my gain is your loss.[7]

Very prominent is the problem of moral hazard. Take the viewpoint of Slovakia, a country that initially refused to contribute to the EU bailout of Greece. It argued that this poorest country of the eurozone, which has done everything to stick to the rules, has to pay for the sins of much richer countries.

The development of the so-called sovereign debt crisis in selected peripheral eurozone countries now will be analyzed.

Greece

In 2009–10 the attention of financial markets turned towards the high government debt of Greece, and it became apparent that the Greek government had cooked the books on a massive scale. The new Greek government that came to power in 2009 had to adjust the planned government deficit from 3.7 per cent to almost 14 per cent of GDP.

In 2010 and 2012 Greece received all together a €240 billion aid package from the EU and IMF in two bailouts. In 2010 private creditors were replaced by public creditors in the form of IMF and EU institutions. In this way the EU taxpayers have been involved in a bailout of an EU country, in breach of the non-bailout rule enshrined in EU law. The bailout money has been put in a ring-fenced account, beyond Greek control.

Early in 2010 German and French banks were the largest lenders to Greece (two thirds of Greek government bonds); 91 per cent of Greek sovereign debt was held by foreign investors (in the case of Portugal it was 53 per cent).

The 'troika' (EU Commission, ECB and IMF) demanded very severe austerity measures, structural reforms, deregulation and privatization in exchange for bailout money. Wages of Greek civil servants went down by 30 per cent in a few months. Under pressure from the troika, the Greek government decided that the jobless would have to pay for their own healthcare, and unemployment allowances would last one year. As a result 25–30 per cent of the population does not have access to healthcare. Greece cut its healthcare expenditures by 40 per cent; 10 per cent of doctors and other staff of public hospitals were laid off; 70 per cent of Greeks cannot afford the drugs they need. It is the weakest in society who bear the burden of adjustment. A survey found that the Greek poor had started to pay 337 per cent more taxes as a result of troika policies, while the rich pay only 9 per cent more.[8]

At the request of the Greek pension fund stopped payments to 63,500 people who were actually registered deceased. However, most of the demands of the troika have not been implemented . For example, 70,000 civil servants should have been fired, but the total number of civil servants has remained the same (692,000).

Then there are counter-productive measures. Greece has reduced the number of tax-collecting offices from more than 200 to 72. Also, the salaries of tax collectors went down.[9] Other events point to the unwillingness of the Greek establishment to tackle tax avoidance. In 2010 then French finance minister, Christine Lagarde, gave the Greek finance minister a list of more than 2,000 Greeks who hold accounts at the Swiss branch of the British HSBC bank. The Greek minister lost the list. When a copy of the list was published in a Greek weekly, the editor was immediately arrested. On the list were government officials. The scandal was widely published abroad but not in the mainstream Greek media, which is controlled by the establishment. According to the left-leaning Greek government that came to power in January 2015, the estimated tax debt is €76 billion, which is 42 per cent of GDP.[10]

The biggest banks were nationalized in the wake of the financial crisis. The troika kept Greek zombie banks alive by multiple injections of cash, but did nothing to reform the financial system. An analyst from the troika estimated that the share of non-performing loans was in August 2014 more than 34 per cent, that is €75–77 billion.[11] Troika support focused on saving the banks. By mid-2013, €58 billion in bailout money had been used to recapitalize Greek banks, but from early 2010 to April 2015 bank deposits decreased by €120 billion.[12]

The troika hardly addressed debts in the private non–financial sphere and those of public enterprises. For example, the debts of the Greek railways amount to 5 per cent of Greek GDP.[13] Why did the troika not ask private creditors to contribute to the bailout before the restructuring of Greek debt in 2012? The Institute of International Finance (IIF), the lobby for 450 of the biggest banks in the world, was instrumental in this. It had unlimited access to the troika negotiators. When private creditors were asked to take a haircut (2012), most of the loans had already been off-loaded to EU institutions. By June 2015 only 18 per cent of Greek government bonds were held by private investors.[14]

During 2010–14 Greece saw a 25 per cent drop in GDP (the IMF had expected in 2010 a 5 per cent drop in in GDP, with growth resuming in 2013), while real domestic demand dropped by more than 30 per cent. Unemployment ratios rose to 26 per cent (it was 8.8 per cent in January 2009), while youth unemployment was 51.2 per cent (January 2015). Some 500,000 Greeks have left the country.

There has been a steep fall in corporate tax income. The result is that the Greek government's budget deficit could be reduced less than was agreed with the troika.

Despite the bailouts and debt restructuring, the government debt increased from 122 per cent of GDP in 2008 to 174 per cent in 2014 (OECD). The troika based their bailout arithmetic on the assumption of a target debt level of 124 per cent of GDP.

It seems that the troika's treatment so far has been worse than the disease. Despite a bailout of €240 billion by EU and IMF rescue funds, the biggest bailout in global history, debt levels remain unsustainable. Some are saying that interest payments on the principal are low, 2.5 per cent on average against 4.7 per cent for Italy and 2.1 per cent for France.[15] But the troika expects Greece to attain a 'primary budget surplus' (government budget excluding interest payments) of 4.5 per cent, which is very counterproductive for an economy in recession. The biggest winners of troika policies have been foreign banks. According to the Bank for International Settlements, they reduced claims with respect to Greek institutions from €250 billion in 2010 to €77 billion early 2015; 92 per cent of the €240 billion bailout money went to Greek banks and banks from other EU countries.[16]

It was conspicuous that the troika did not target the outsized Greek military for budget reductions. No other EU country spends as much on defense as Greece.[17] Nor did the troika ask for the dissolution of monopolistic structures that keep consumer prices very high. The purpose of the bailout was to hit Greece hard. According to the *Wall Street Journal* (10 May 2012), German Chancellor Angela Merkel told Greek PM Papandreou during the negotiations over a bailout package that the deal had to hurt: 'We want to make sure that nobody else will want this'.

The policy of the troika is to lend (an in fact) bankrupt Greece even more money in exchange for policies that have ruined the economy, thereby undermining the ability to pay back the growing mountain of debts. Varoufakis called it a 'cynical transfer, effected in the name of

European "solidarity", (which) led to a death dance of insolvent banks and bankrupt states'.[18]

Structural adjustment as imposed by the troika was also meant to enhance competitiveness. But during 2009–12 Greece fell 29 places in the World Economic Forum's Global Competitiveness ranking, and in 2012 stood at 96 in a list of 144 countries. The sharp drop in average wages did not lead to increased exports: on the contrary, exports dropped sharply.

A casualty of the policies of the troika is also democracy. After Prime Minister Papandreou dared to announce a referendum about a bailout package without consulting the troika, he was summoned to retract the referendum and forced to resign. His successor was the 'technocrat', Lucas Papademos, who had previously worked for Goldman Sachs. In November 2012 the Greek government agreed, under protest, to new austerity measures imposed by the troika. Just one day before the parliamentary debate, the Greek parliament was given a one-clause bill incorporating a large number of unrelated measures, running to several hundreds of pages, making a detailed discussion impossible, and violating parliamentary rules.[19]

January 2015 parliamentary elections brought a new government to power in the promise to put an end to austerity policies. However, the troika not only stuck to its old policies that have proved to be a failure, but intensified those policies. After more than six months of humiliating 'negotiations', the new Greek government had to submit to the troika diktat. The new agreement also opened negotiations on a third Greek bailout worth €86 billion. Greek public assets, worth €50 billion had to be put in an EU-controlled institution in order to be privatized. Debt restructuring was not on offer, although the IMF said that Greek debt was not sustainable. Earlier the IMF had expressed the opinion that austerity is harming Greece. It also became known that, already in the preparation of the first bailout, there were doubts within the IMF about the bailout package.[20] During the negotiations with Greece a rift also appeared between Germany and France.

Ireland

The fraudulent report that Merrill Lynch's investment arm wrote, and which stated, 'All of the Irish banks are profitable and well capitalized' fed into finance minister Lenihan's controversial decision on 30 September 2008 to introduce a blanket guarantee for Irish banks. But the banks had systematically lied about their condition, withholding crucial information. It appeared that the banks held about €75 billion in bad loans. The largest creditors of Ireland were Germany (€109 billion), the United Kingdom (€100 billion) and France (€40 billion) (BIS data, 20 November 2010).

Soon after the EU stress tests gave Irish banks a clean bill of health, Irish banks collapsed and needed an additional €24 billion. The EU put heavy pressure upon the Irish government to bail out the banks.[21] Shortly after the bailout, January 2011, Anglo-Irish paid €750 million to shareholders, an amount that is of the same magnitude as the Irish social security budget.

The blanket guarantee of government meant that the taxpayer had to indemnify irresponsible foreign investors who had helped to pump up the Irish bubble. Subsequently, Irish banks paid €97 billion to their potential foreign creditors. Only 18 members of parliament voted against the blanket guarantee. The Irish people were being required to suffer so that bondholders in Germany, France and England got paid in full on their risky investments. Even the IMF admitted that this was a mistake.[22]

The EU came to the rescue with a loan package in exchange for a severe austerity program: €35 billion of the €85 billion bailout package (the interest rate was 5.8 per cent), agreed November 2010, was immediately used to recapitalize Irish banks. This €85 billion amounted to 40 per cent of Irish GDP. The ECB gave €160 billion emergency liquidity to Irish banks – this, above a €71 billion credit from the Irish Central Bank. We should remember with these mind blowing figures that the population of Ireland is only 4.7 million.[23]

The Financial Times (15 November 2010) commented:

> It would keep the Irish people indentured to those who recklessly fund their banks: EFSF (EU) funds must, after all, be paid back by taxpayers. It would also give an official EU imprimatur on Europe's dirty secret: public treasuries will do anything to make private bank creditors whole.

According to Nessa Childers, Irish MEP, 'The bankers and hedge funds got virtually everything they asked for while the public got hit with a raft of austerity measures'.[24] *The Financial Times* (2 May 2013) pointed to close links between banks, multinationals and the Irish Treasury, with secret meetings in the prime minister's offices. On the demand of the EU and IMF, Ireland transferred €17.5 billion from the national pension fund into the accounts of Irish banks.[25] The low Irish corporation tax (12.5 per cent, one of the lowest in the eurozone) was safe from EU scrutiny.

The result of the bailout and austerity policies was that domestic demand fell by 27 per cent and investments by 60 per cent. Unemployment rose to 14.6 per cent, while the share of labor in national income dropped significantly. Emigration of, above all, skilled Irishmen soared. Almost half of Irish medical doctors are working abroad.[26] As a result of the bailout the government budget deficit increased from about 12 per cent of GDP in 2009 to 32 per cent in 2010.[27]

Many analysts and politicians think the main problem of peripheral eurozone countries is that of competitiveness. This is clearly not the case with Ireland, which accounts for 0.3 per cent of global GDP, but 3 per cent of world trade in services, and 6 per cent of world trade in pharmaceuticals.[28] Exports are mainly in the high-tech sphere. Labor productivity increased during 1995–2008 more than double than that of Germany (Lapavitsas, 2012, p. 27).

Ireland's GDP started growing again in 2014 (5 per cent). During 2008–14 competitiveness indicators improved, and exports increased. But domestic national income per person, that is total national income minus the trade surplus, declined, from €35,000 in 2007 to €25,000 in 2012, a drop of one-third.[29] It shows how much the Irish are being squeezed. As a result of the drop in income, in June 2013 15.8 per cent of mortgage holders were 90 days or more in arears.[30] This puts additional pressure on banks.

Ireland stood out among the peripheral eurozone countries for the fact that there was little need for wavers and modifications of the agreed bailout programs, and that popular protest against austerity was very limited. In November 2013 Ireland quit the IMF bailout program.

Spain

Until 2010 the Spanish government was in denial about the shaky foundations of many Spanish banks, and it was strengthened in this belief by relevant international authorities. According to some estimates, Spanish banks had about €240 billion in 'problematic exposure' out of €580 billion invested in real estate and construction.[31] Residential mortgage assets are still on the books of the banks at their original value, despite the fact that house prices dropped by about 40–50 per cent during 2007–13. Spanish banks also used cheap credit provided by the ECB to buy up government debt, setting up another potential vicious circle. According to the Bank of Spain (November 2014) 12.7 per cent of the €2 trillion loan portfolio, which is €180 billion, is non-performing.

In 2012 Spain received from the EU a credit line of €100 billion in order to recapitalize its ailing banks.

The banking sector has not been reformed, and many banks are opaque and operating according to clientelistic principles. One of the major banks, Santander, has a capital hole of €15 billion, yet shareholders received a €2 billion dividend (half of profit).[32] Despite mismanagement, Spain's bankers continued to earn very well. The 125 best-paid Spanish bankers earned in 2012 on average €2.4 million, according to the European Banking Authority.

Although Spain implemented a rigorous austerity policy, budget deficits were going down much less than anticipated. Spain promised a budget deficit of 6 per cent for 2011, but it became 9.6 per cent.[33] Growth did resume again in 2014.

Spain's unemployment rose to 23.7 per cent (March 2015). In some regions, like Andalusia, unemployment rose to above 40 per cent. Youth unemployment was, in March 2015, 50.7 per cent. As a result of impoverishment, many could not pay their mortgages. In 70 per cent of the cases, the cause was unemployment. In case of remaining debt, debtors have to pay with their remaining private assets. Many people are leaving Spain altogether. Unlike the emigration waves of the 1960s and 1970s, it is the skilled who are now leaving.

At the same time, the state continues to be captured by corporate interests. In 2012 and 2013 it became known that the party in government and its leading members were bankrolled, in secret, by property developers. These revelations fueled a wave of popular protests that, unlike in Ireland, attained massive proportions. Protests are also related to increasing inequalities. Spain had, in 2013, the largest income divide in Europe: 3 million Spaniards lived in extreme poverty in 2013; 47 per cent of the unemployed do not receive any unemployment benefit.[34] Expenditures for healthcare diminished by 18 per cent during 2009–13. Yet the number of Spanish millionaires steadily increased.

Italy

Although the overall debts of Italy are not very high, the country has a €2 trillion sovereign debt mountain (2012) which is 26.4 per cent of the total sovereign debt of the entire eurozone. As a percentage of GDP, this debt is increasing fast, from 106 per cent in 2008 to 136 per cent in 2014 (Q1). Total gross external debt, including private-sector debt, is €31,488 per capita, or 123 per cent of GDP (2014).[35] Industrial production in 2014 was 24 per cent below the 2007 level. Economic fundamentals are weak. During 2007–14 GDP growth per capita was minus 9 per cent (Eurostat). As soon as the markets spotted Italian weaknesses, interest rates for Italian government bonds went up to an unsustainable level.

After Prime Minister Silvio Berlusconi started talking about a euro exit he had to resign as a result of pressure from the EU and was replaced by non-elected Mario Monti, a former EU commissioner (1995–2004) who had also worked for Goldman Sachs. As a result of austerity policies, economic stagnation deepened in Italy, and unemployment soared to 12.7 per cent, with youth unemployment at 42.6 per cent (February 2015). Since 2010, private consumption has been constantly falling.

The problem with Italy is that, if it needs a bailout, it needs a minimal amount of €670 billion, money that is not available.[36] Many Italian banks are in trouble. During the 2014 ECB stress tests, nine Italian banks failed. Bank assets amount to 225 per cent of GDP.[37] Nonperforming loans with Italian banks amounted in December 2014 to €325 billion.[38] The oldest bank in the world, Monte Paschi di Siena, needed a bailout of €4.1 billion in 2012 (after an injection of taxpayer money in 2009) due to mismanagement that was covered up by politicians, and by the then-regulator, Mario Draghi.

More than the financial crisis itself, it is the euro that has caused a lot of problems in Italy. During 1995–2013 Italy became 42 per cent more expensive than Germany. In pre-euro times, Italy would solve such a problem by devaluation. Several major political parties, among which Lega Nord and Five Stars, are pleading for a euro exit.

Cyprus

Another center of euro casino capitalism is Cyprus (1.1 million inhabitants and 0.2 per cent of EU GDP). By 2012 the Cypriot banking system was equal to 835 per cent of the island's GDP, and financial services contributed 70 per cent of GDP. Cyprus also practices tax dumping with a 10 per cent corporate tax rate, the lowest in the EU. Between 1995 and 2011 the banking sector expanded by 240 per cent. Loans to Greek banks by Cypriot banks amounted to an astonishing 160 per cent of Cypriot GDP. Cyprus serves as a tax haven. In particular shadowy enterprises and oligarchs from the former Soviet Union are making use of its financial services. Russian banks extended $40 billion in loans to Cypriot companies.[39] Eighty Russian oligarchs were given Cypriot nationality. According to Anders Aslund, Cyprus has effectively operated as Russia's department for foreign payments for a large number of Russian enterprises, and Cyprus has been one of the largest foreign investors in Russia. It was no surprise that Russia offered a €2.5 billion loan to the tiny eurozone country in order to relieve its financial crisis.

From mid-2012 onward it became clear to the EU authorities that Cyprus was in need of a bailout. The EU postponed negotiations until after the Cypriot presidential elections, when the communist president was ousted (February 2013). The ECB broke its own rules by enabling Cyprus's central bank to keep the country's largest lender, Laiki Bank, on life support, long after it was insolvent. Laiki got €9 billion in ECB emergency liquidity assistance, funneled through the Cypriot Central Bank (that is about 70 per cent of GDP), being obliged to repay the money.[40] This is remarkable given the fact that it was obvious that repayment of these loans would be very problematic, if not impossible. Already before the bailout negotiations, capital flight surged as well-informed insiders shifted deposits to other banks, and Laiki bank found itself at the edge of the precipice, with €55 million in cash left. This bank had gambled with Greek government bonds, on which it lost €2.3 billion when the bondholders of Greek debt had to take a haircut.[41]

In their negotiations with Cyprus, the EU played hardball. Initially, it pushed Cyprus to accept a bailout of €10 billion, with Cyprus raising an additional €5.8 billion. This was conditional on a restructuring of the Cypriot banking sector and on private deposit holders taking a hit, also those having less than €100,000, although a eurozone guarantee exists for amounts up to €100,000. The Cypriot parliament did not accept the deal, while panic emerged across the eurozone because deposit holders did not feel safe and fears of a bank run mounted. In the end, only deposit holders with more than €100,000 were hit. Not only were individuals hit, but also enterprises, pension funds and insurance firms with deposits. This bailout was a novelty for the EU because, for the first time, deposit holders had to take a hit. The bailout (and bail-in) process showed to the whole of the eurozone that deposit holders are not safe anymore, that there are different kinds of euro's (the Cypriot euro ceased to be the same, as export and import of this currency was subordinated to strict controls) and that in a bailout (or bail-in) growth prospects are of no consideration at all.

EU crisis management: EU institutions

According to ECB director Jorg Asmussen, the eurozone stood summer 2012 shortly before an uncontrolled falling apart.[42] It was not only unsustainable interest rates on government bonds that struck peripheral eurozone countries, but also capital flight. Capital flight in Spain during June 2011–June 2012 was €296 billion (27 per cent of GDP) and in Italy €235 billion.[43] In July 2012 Mario Draghi, the president of the European Central Bank, declared that the ECB would do everything to save the euro. In August 2012 the ECB decided to accept sovereign bonds, issued by eurozone governments, as collateral from banks when the ECB was extending loans (the 'outright monetary transaction' scheme). This measure led to a lowering of interest rates for sovereign bonds from peripheral eurozone countries. After that, financial markets calmed. This development was also related to the announcement of a banking union with the perspective of European support for ailing banks.[44]

The EU consistently tried to appease financial markets by little steps towards a transfer union, this means mutualization of government debts and a fiscal union. In doing this, the EU reacted very slowly and inefficiently, instead of being pro-active and shaping developments. Every step the EU made was in line with what the banking lobby demanded. The EU has been kept hostage to the big banks that threaten Armageddon if their wishes are not fulfilled.

At the same time, the EU tried to push neoliberal reforms with renewed vigor. Bailout programs were conditional on austerity policies, including cuts in funding of essential public services, privatization of state assets and undermining of industrial relations through enforced cuts in minimum wages and a further liberalization of labor markets.[45] Hence, the real purpose of the bailout programs seems to be pushing down labor and the welfare state and opening up the public sector to private capital. The dismembering of the welfare state, as far as it existed, has been presented as a technocratic exercise of 'balancing the books'. But reform of the financial sector has hardly been addressed.

The EU decided to involve the United States-led IMF in the bailout of indebted peripheral countries, in order to demonstrate the IMF's legitimacy as an 'independent' outsider, in order to enhance the legitimacy of the Troika. None of the three troika members has a democratic mandate. By not having restructured the debt of banks and governments in such a way that debt levels are sustainable, the IMF has not applied its own guidelines with respect to balance-of-payment support.[46]

Only reforms in the peripheral eurozone countries have been pushed, ignoring the fact that a big problem exists in the northern eurozone countries. The latter had been implementing austerity policies that undermined the efforts of the peripheral countries.· The success of German exports has not been primarily related to innovation but above all to extreme austerity policies pursued since the late 1990s. Lower labor costs helped German exports to the EU peripheral countries. Boosting domestic demand in northern eurozone countries would help to correct imbalances. Instead, there has been an austerity race to the bottom.

In December 2011, a fiscal agreement for the eurozone was approved that limits structural budget deficits to no more than 0.5 per cent of

GDP. This agreement takes away one of the major cornerstones of sovereignty, and it enshrines an anti-Keynesian balance in law.

Eurozone governments agreed in March 2012 to deliver €500 billion in bailout funds in the hope of erecting a firewall strong enough to contain the sovereign debt crisis. The European Stability Mechanism (ESM), which came into force in 2013, serves as an embryonic European Monetary Fund. Originally, the ESM was only meant to help ailing eurozone states. Under the pressure of debtor nations it has been decided that the ESM can be used directly to recapitalize ailing banks without the loans being added to government debt. The combined lending ceiling of the ESM and the European Financial Stability Facility (EFSF), the precursor of the ESM, has been set at €700 billion. However, only €60 billion is earmarked for direct support for banks. This will not be enough to fill the black hole that systemic banks have created (see Chapter 4).

The ECB, during 2011–12, provided extra refinancing credit to commercial banks amounting to €1 trillion. In late December 2012, the three-months borrowing rate was 0.128 per cent and has gone further down since then. A lot of this money has been used, especially by weaker banks, to buy up sovereign bonds that yield much higher percentages but carry zero risk, at least according to accounting rules. The ECB is guaranteeing the survival of banks loaded with toxic loans and government bonds. But the total debt of banks in PIGSI countries amounts to €9.4 trillion, while government debt is €3.5 trillion.[47]

The proposed banking union for the eurozone can be seen as a means for insolvent banks to get unlimited access to taxpayer's money. It comprises a set of rules on banking, a 'single rule book' with more comprehensive and harmonized rules in the EU, and the European Central Bank (ECB) has been made the supervisor of the biggest banks in Europe (the Single Supervisory Mechanism). Also, a ''Deposit Guarantee Scheme', which is to safeguard all deposits up to €100.000, has been agreed.

A legal opinion drafted 8 October 2013 for the EU Commission admitted that the banking union in its present proposed form might be illegal. Mutualization of debt is illegal under EU law. A problem for Germany is that debtor nations can outvote creditor nations. Germany managed to push through the decision that the European supervision of banks only applies to the 128 biggest banks out of the total of 6,000 banks in the European Union. The banking union will, in the initial stages, be nationally funded. It means that bank resolution will, initially, be a simple reshuffling of debt from one sector to another (public) within one country. There is also a bail-in mechanism into which first the owners/shareholders of the failed banks have to pay, to a maximum amount of 8 per cent of the bank's balance, and the new European rescue fund, funded by banks. This leaves a huge gap, to be funded in principle by the ESM, and that means the European taxpayer.[48]

The banking union will not come into effect until 2018. Crucial elements of this union are still debated. Germany, especially, is resisting the risk-sharing elements of this union (recapitalization of banks by the ESM, a common fund to wind up insolvent banks and a common deposit insurance). Big banks might profit in the resolution mechanism, as they can buy assets of insolvent banks at bargain prices, exacerbating the too-big-to-fail problem. In this situation the ECB has every incentive to prevent banks from failing. The ECB is in no position to demand that banks raise capital if it would endanger financial stability. This highlights a conflict of interest within the ECB. By mid-2015, eight years after the start of the financial crisis, megabanks were still too big, too interconnected and too complex to resolve, and nothing has been done to tackle these problems. The EU's 19 'largest banks hold 76 per cent of the EU's total bank assets and 93 per cent of all trading activities.[49]

The EU assumes that with a robust recovery and the resolution process of failing banks, protection of society from bank failure would be adequate. Making banks healthy through a strict and effective regulatory framework is not a priority.

The proposed banking union is a step further in the EU policy of creating a deeply integrated financial market in which there is a level playing field for financial capital. France and Germany complained that the new EU rules for 'separating' retail from investment activities within banks are much weaker than their current rules.[50] The envisaged integrated EU market for financial services means more, and not less, risks for the taxpayer. The banking union does not create a fire wall but 'a "'fire channel"' that will enable the flames of the debt crisis to burn through into the rest of European government budgets'(H.-W Sinn).[51] The ESM support allows the postponing of necessary debt restructuring. The assumption of the ESM and ECB is that debt problems can be solved by providing more loans.

The eurozone financial system still looks like a house of cards. The ECB ''Outright Monetary Transaction' scheme that allows the ECB to buy government bonds directly (on secondary markets) and that has calmed financial markets since Summer 2012, is under fire by the German Constitutional Court.[52]

Table 5.2 Internationalization of the banking sector (the sum of external assets and liabilities of the banking sector compared to the size of GDP), 2012 and 2014

	2012	**2014**
Ireland	5.22	3.13
UK	4.49	3.04
The Netherlands	3.21	2.48
France	2.17	1.60
Sweden	1.83	1.25
Germany	2.90	1.07
Greece	0.79	0.80

In January 2015 the ECB started pumping €60 billion a month into financial markets (until September 2016). This quantitative easing suppresses interest rates and creates asset bubbles. The stated aim is to facilitate bank credits for enterprises, based on the false assumption that lack of credit is a major problem of the eurozone.

EU policies and the euro crisis have led to a compartmentalization of EU banking. Cross-border bank's' claims in the eurozone diminished during 2008–13 by 32 per cent (€1.2 trillion). In 1999 22.6 per cent of eurozone bank's' holdings of bonds consisted of other eurozone' government and corporate bonds. This share peaked at 40 per cent in early 2006 and since then declined to 22.1 per cent during the first quarter of 2014 (*Financial Times*, 10 June 2014). This re-domestication of eurozone bond markets is related to perceived higher risks, and the taking over of shabby (foreign) collateral by the ECB. Only in 2014 did cross-border lending within the eurozone start to increase again, the first increase since 2008. Although EU banks are withdrawing to their home bases, they are still very much internationalized (Table 5.2).

EU economic performance

Generally, since the start of the financial crisis, GDP growth figures have slowed down across the EU, even in Germany, which was the least affected among the larger EU countries (Figure 5.2). In November 2012, the eurozone entered into recession. By 2014 only four countries had a GDP higher than they had in 2007, the last pre-crisis year (see Table 5.3). By late 2013 the eurozone started to grow again, but it has so far seen sluggish growth (see Table 5.2). The current account of the eurozone turned from a small deficit into a surplus of 2.4 per cent in 2014, thereby

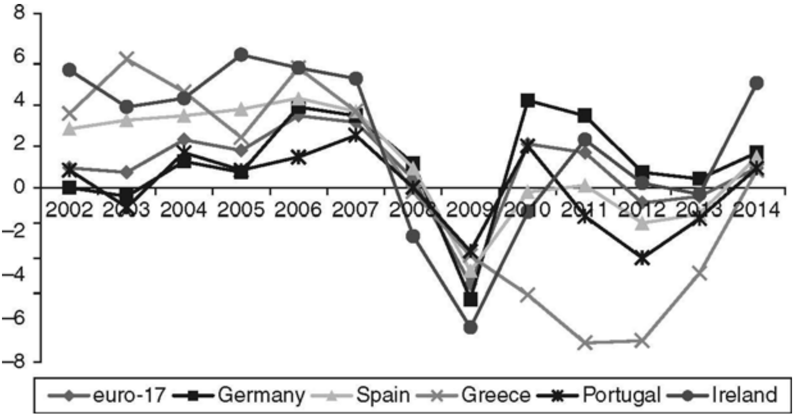

Figure 5.2 GDP growth in the Eurozone, 2002–14
Source: Eurostat.

Table 5.3 European economic performance 2008–14

	Real GDP (PPP) 2014/2008	Average real wage index 2007–13 (2007=100)	Price Level 2014 (EU28=100)	Unemployment rate, May 2015
Euro area (19)			103	11.7
Germany	3.9	102.7	100	5.2
France	2.1	102.3	109	10.4
Italy	–8.0	94.3	102	12.6
Spain	–6.0	96.8	94	25.1
Portugal	–7.6	103.4	83	14.6
Greece	–25.5	75.8	89	26.5
Ireland	0.0	98.1	120	11.9

Source: OECD (real GDP, PPP), ILO (real wage), Eurostat (price level, unemployment rate).

cushioning the collapse in GDP. While real domestic demand fell by 5.9 per cent during Q1 2008–Q1 2014, real GDP fell by only 3.5 per cent (Eurostat).

There are no signs that the competitiveness of eurozone peripheral countries, apart from Ireland, is improving. Some point to declining current account deficits of PIGSI countries, but this is mainly due to collapsing imports. There has been some improvement with respect to convergence of unit labor costs, but they are far from sufficient.[53]

Increasingly, private capital flows within the eurozone have been substituted by public capital flows. Financing from the ECB accounted in early 2013 for more than half of capital flows within the eurozone.[54]

The eurozone has no mechanism to force the biggest creditor nations to run down their colossal current account surpluses. Imbalances in current accounts across the eurozone are partly transformed into claims of national central banks (Target 2 claims). These are hidden transfers, used to settle payments between the national central banks in the eurozone. As private capital has left the troubled economies of Southern Europe and Ireland, peripheral central banks have, in effect, had to borrow more from those in the core. The Bundesbank's claims, by late 2012, had reached €750 billion, then declined to €513 billion by 28 February 2015 (Bundesbank).

Also, price levels diverged (Table 5.3). H.W. Sinn (2013) estimates that the crisis eurozone countries need to lower their price levels by 30 per cent in order to become competitive. Stockhammer and Sotiropoulos calculated that, for the peripheral eurozone countries, a GDP reduction of 49 per cent is needed, on average, in order to become competitive and eliminate current account deficits.[55] Although the eurozone needed real economic convergence in order to consolidate the euro, the opposite happened. After the eruption of the sovereign debt crisis, divergent tendencies have exacerbated.

Failed austerity policies and market fundamentalism

Across Europe, Keynesianism has been abandoned after a short period of revived interest in Keynes (in 2009, when the G20 and also the IMF demanded a fiscal stimulus). Instead, austerity policies have been implemented. But, with austerity, growth slows. Indebted governments become trapped in a self-defeating cycle of ever-greater austerity, which complicates rather than solves the problem of public debt. The basic mistake is that the government budget is compared with a household budget, forgetting the lessons of macro-economics and economic history.

The argument is that in order to balance government budgets and enhance competitiveness we need to economize on government expenditures and wages, forgetting that the overwhelming part of EU production is sold in the EU, forgetting that lower salaries for everyone means less sales for enterprises.

The Commission of the EU and the EU governments think that decisive fiscal austerity will create confidence in the private sector, and that this increased confidence will more than offset any direct negative consequences from smaller government outlays. However, more than five years after austerity policies started to be implemented, the eurozone is still stagnating, and recent growth has been sluggish and fragile. Collapsing demand leads to company bankruptcies, adding to the banks' bad debts. Credit is harder to get while tax revenues of governments are declining, resulting in increased pressure on governments to find additional money. Subsequently, declining government expenditures feed into the collapsing demand, making it more difficult to cut the national debt.

Austerity is used as a pretext for an all-out attack on labor – an attack supported and orchestrated by the EU Commission. Wolfgang Kowalsky noted that

> the link between cooperation and competitiveness which prevailed in post-war capitalism is being replaced by a unilateral market-driven agenda in which competition in the areas of wages, worker's and social rights, public services, labor markets, pensions, provisions for labor mobility etc. is organized.[56]

The IMF admitted that it underestimated negative multipliers for the economy in the case of fiscal consolidation.[57] That is the reason that the IMF and the Commission of the EU were persistently wrong about their predictions of diminishing government budget deficits in countries where austerity has been implemented. Several years after austerity policies started to be implemented, in all PIGSI countries government budget deficits are still far above the 3 per cent target.[58] Although one of the aims is internal devaluation through wage cuts, the only peripheral EU country where substantial wage cuts took place is Greece (see Table 5.3). Common policy across the EU is to export the economy out of depression, a policy that results in a beggar-thy-neighbor policy. It is impossible for all eurozone countries to have current account surpluses.

Empirical research showed that fiscal consolidation as has been practiced in EU countries since the start of the sovereign debt crisis (2010) is counterproductive. In the eurozone as a whole, the result of coordinated fiscal consolidation during 2009–12 is a rise in the debt–GDP ratio of approximately 5 percentage points.[59] Also, the interwar experience shows that austerity in times of depression is counterproductive.[60] The UK experience between the two world wars proves that the interaction between attempts at 'internal devaluation' and the dynamics of debt are potentially lethal.[61] UK public debt soared in those times despite tight fiscal policies.

But the eurozone continues to strangle itself with a toxic mixture of austerity and a structurally flawed financial system.

The German conundrum

Germany is in an awkward position. It is obvious that the present bailout fund (ESM, €500 billion) is far from enough to fill all the black holes that are appearing in a growing number of eurozone countries. As the crisis deepens bad debts are multiplying. There are limits to what Germany can give. The health of the German economy is at stake.

Some will say that it is German banks that have been saved with the bailouts. But, increasingly, Germans will consider the possibility of bailing out their banks directly, themselves. This might be cheaper. So far, Germany has gone along, although reluctantly, with the demands of its eurozone partners, under the argument that the euro should be saved at any cost. But as the price of saving the euro is rising, the opponents of the present policy are becoming more vocal. Another problem that is playing in the background is the historic duty Germany has with regard to Europe. This has pushed Germany to give in to some demands of debtor nations.

Of course, Germany is considering how structural reforms can be guaranteed in case of the mutualization of government debts. Germany has the experience of the incorporation of East Germany. Despite huge transfers from West to East, productivity levels in the East Germany barely caught up.

In recent years well over half of Germany's total eurozone exports had to be financed by the Bundesbank through the so-called Target 2 facility of the European Central Bank (trade surpluses with eurozone countries were, up to 2009, mainly financed by the private sector, and since then by the taxpayer). One can say, as Gunnar Beck does, that

> the euro has benefited German industry but it is expropriating the German saver and the German tax payer……With the euro rescue, Germany is shackled to a corpse. If the Bundesbank had printed and invested the money at home, it could have stimulated domestic demand, or reduced German public indebtedness to well under the 60 per cent of GDP required by the Maastricht treaty.[62]

Many Germans wonder why they should suffer for the sake of peripheral eurozone countries, the wealth of which increased to such an extent that in many of these countries wealth approached or even surpassed the wealth of Germans. According to ECB data the average household wealth in Spain was €210,200, but in Germany only €67,900 (Italy €188,000, Greece €110,200, Ireland €47,000).[63] Germans have noticed that they, collectively, started to save more in order to spend more money abroad, often in the form of risky lending, propping up other economies.

It is amazing to see how easily EU governments are willing to surrender sovereignty in order to save the euro. New economic governance mechanisms, focusing on fiscal consolidation and rescuing banks, are created without considering the roots of the euro crisis. Under the argument that there is no way back ('you cannot create eggs out of an omelet') there is only one way forward, and that means big steps towards a federal Europe. In this rule-less transformation there is hardly any consideration for a sophisticated institutional structure with checks and balances. In this ad hoc bricolage of institutions, those with the strongest influence in the EU corridors of power get what they want.

Political and social crisis

Short-sighted and self-defeating policies have turned an economic crisis into an existential crisis for the EU. The economic crisis has deeply affected politics and societies across the EU. In this process an EU à la carte is emerging with a federal core in which the dominance of big financial institutions is strengthening.

Most EU countries are also faced with a social crisis reflected in increasing social polarization, weakening civil society, erosion of the public good and a shift towards a market society. Especially in the peripheral EU countries, social crises are expressed in civil unrest.

The EU is also faced with a governance crisis that has several dimensions. There is inefficient decision-making. EU decision-making is not designed for 28 member states (2015). Especially in those policy areas where a qualified majority or unanimity is required, progress is extremely difficult. It also leads to incoherent policies. The inter-governmental aspect of decision-making has been strengthened since 2008, although progress in procedures in decision-making is most difficult here. Apparently, EU policymakers are using a neo-functionalist approach to integration. This implies that consent may be created through changes in structures that, in turn, create, almost automatically, the attitudes necessary for progress without ever really needing to convince the majority of people. This defective decision-making results in the EU reacting to, rather than shaping, developments. Economic logic is pushing the EU in the direction of a federation, and a political logic is pushing peoples in the opposite direction (the European paradox).

There is a growing divide between the EU 18 (eurozone) and the EU 28 (for example the United Kingdom wanting to opt out from police and justice cooperation) and growing divides between northern EU countries (creditors) and peripheral EU countries (debtors). The southern peripheral eurozone states are structurally submerging and increasingly unable to compete with emerging economies in the Global South, while the northern EU countries will probably remain competitive on world markets.

On top of growing divergence in terms of competitiveness and growth, there is a growing apart in the sphere of identity and belonging. Animosity between member states has increased, and rifts have emerged, especially between the northern and southern eurozone states. Anti-German feelings are on the rise, especially in Southern Europe. The United Kingdom is loathed because of its unwillingness to allow reform of the financial sector or to contribute to the bailout of peripheral countries, although UK banks are profiting from these bailouts.

In the northern eurozone countries, as people feel wage cuts while seeing nothing in return, there is a growing fatigue with endless bailouts. Trust in EU institutions is declining. Austerity policies are implemented across Europe, exacerbating income inequalities and putting the burden of the crisis on the shoulders of those who can least bear it. In an interview with the *Wall Street Journal* (24 February 2012), ECB president Mario Draghi already said that the traditional European social contract is obsolete.

A lot of discussion has been about the question of whether an indebted peripheral eurozone country might step out. However, it cannot be excluded that one of the northern eurozone countries might decide it is better to opt out of the eurozone. This applies especially to countries where the financial system is relatively healthy and less interconnected with that of the eurozone, such as Finland. Also, the strong belief that it is unthinkable that the eurozone can fall apart might contribute to this eventuality happening because the belief in the impossibility of a disintegration distracts attention from the very forces that undermine the eurozone. We can refer here to the fate of the Soviet Union, where up to the late 1980s none of the area specialists could imagine that it could fall apart, while the rot was in the center.

Centrifugal forces are strengthening, and they affect the most vital economic interests of crucial stakeholders in the core, and they are exactly what might blow up the eurozone. These forces are gaining strength because EU policymakers are ignoring the root causes of the crisis (an out-of-control financial sector, and divergent economic systems) while prescribing a counter-productive economic strategy upon the EU (austerity that deepens the recession and undermines living standards of the majority of the population).

There are also contradictory rules and institutions (e.g., a no-bailout clause in the basic treaty but the ESM implies bailouts). For example, in many matters concerning the euro, the non-eurozone EU countries are also around the table, often blocking progress. Existing EU rules are ignored, while creating ad hoc new institutions in such a way that new institutional traps are created.[64] In this process democracy is a casualty. The EU parliament has little power and is not scrutinized by the media, while the Commission acts in many ways like an unelected EU government. There is no European polity, but there are well-organized business lobbies that can very much influence decision-making at the EU level.

Unaccountable institutions are acquiring more power. The ECB is becoming more influential while the European Stability Mechanism is an intergovernmental institution for the eurozone, with no control of the EU parliament. ESM officials have immunity from prosecution. They can lend as they wish. Preconditions have been created for an unsupervised transfer of taxpayer's' money to private banks. The ESM decides about enormous amounts of money, but no clear guidelines have been made for deciding under what conditions assistance should be granted.

The unelected Commission of the EU is accumulating more powers over policy areas of member states – powers that hitherto were determined at the national level. EU institutions are now pushing back the welfare state and all kinds of protection for labor. In the process of euro-crisis management, the European Council and later eurozone summits have become more important, giving more weight to the bigger eurozone states. Small and medium-sized states are being marginalized. With the ad-hoc crisis management since 2010, a secretive shadow state has emerged in the EU, one that consists of a patchwork of agencies without democratic oversight.

On the national and EU level there is a crisis of interest representation. Part of this system are also the corporatist arrangements in North-Western Europe that the European Commission tries to dismantle because it contravenes the working of ''free markets' (for example systems of collective wage bargaining and cartel like forms of cooperation). As a result the political and economic establishment has become more disconnected from the peoples and their aspirations. Populist movements therefore have got more opportunities.

A core–periphery dynamic pushes migration streams towards the core and drains the economies of the periphery. Also, mass immigration from the Middle East and Africa has put strain on the Schengen agreement.[65]

In the course of the euro crisis, there has been a rapid reconfiguration of forces within the EU, not only away from democratic accountability. One of the prominent tendencies is that of the coming to the fore of one single force, namely Germany. That was something the founders of the EU tried to prevent. But it seems that a German Europe is emerging in which Germany imposes its economic policies on the rest of Europe. This was clearly shown in the negotiations with Greece, in which Germany proved to be the most prominent hardliner. The emergence of this accidental German empire is not the result of any smart German strategy, but from German short-sightedness that assumes that what is working in Germany might work in other EU countries as well. Growing German power and growing resentment of that power have become a major theme of the European discourse. Hardly discussed is the role the United States is playing in EU affairs. Hardly discussed is the political role creditors are playing.[66]

Still, EU governments profess the possibility and necessity that the PIGSI countries can recover through internal devaluation. In this context it is not surprising that popular support for the EU diminishes. In autumn 2007, 57 per cent of EU citizens trust common EU institutions and 52 per cent have a positive image of the EU; the figures for autumn 2014 were, respectively, 37 and 39 per cent (Eurobarometer).[67] Increasingly, anti-EU political parties come to the fore. In Italy they won a majority in the 2013 parliamentary vote. Increasing tensions within countries lead to the coming to the fore of separatist parties. In early 2013, the Catalonian parliament declared sovereignty. In 2014, the Scottish referendum almost led to Scotland's exit from the United Kingdom.

The consensus nowadays is that the euro can only be saved if the EU transforms into a transfer union, that means that you have an effective EU economic government that disposes of a 'treasury' that can move money from one EU country to another. EU president, van Rompuy, admitted that, ''We can't have a monetary union at the end without some form of economic and political union'.[68] This means a big jump towards a United States of Europe, but it will be, in the short and medium term, a USE without a demos and without a polity. Polities – civil society and political parties – are still organized at the national level, and that will remain for some time to come. Especially since the sovereign debt crisis erupted, national interests are reasserting themselves over a project that was inspired, above all, by the desire to suppress national interests.

A forced transition to a United States of Europe will mean a dysfunctional polity and democracy where the influence of big corporations and big finance is even bigger than it is now. As Ann Pettifor pointed out, the

> euro-zone's economic model facilitates easy money, tax evasion, money laundering and fraudulent activity, while at the same time offering tax payer guarantees against default and imposing a one-size-fits-all rate of interest and exchange rate.[69]

Since the 'sovereign debt' crisis erupted, the picture has become even more complicated with ruleless ad-hoc crisis management and the emergence of institutions that solidify the grip of a financial aristocracy.

6
Globalization, Financialization and US Power

The opening up of the Global South and associated corporate globalization was crucial in realizing the epochal changes in developed capitalism. It will be argued that the US- and US- led institutions of global economic governance played a major role in creating the new institutional infrastructure that accompanied the emergence of integrated transnational production networks and global financial markets. The United States was also a major beneficiary of the new global capitalism. Globalization led to global labor and regulatory arbitrage that kept wages low and put downward pressure on regulatory regimes. A web of tax havens, centered around New York and London, allowed multinationals and elites to avoid taxes and escape the law. Methods used in the South to open up countries for capital would later be used in developed capitalism.

The debt trap and opening the South for capital

The perception that expanding socialism was threatening capitalism

During the 1970s, the emerging mood in the United States was that it was globally on the defensive. In the early part of the decade, the Soviet Union attained strategic parity with the United States (Mutually Assured Destruction) and was in a position to support a range of countries that for one reason or another, opposed the United States. The Soviet Union was a rallying point for anti-systemic forces. Moreover, the Soviet Union and other socialist countries still provided an alternative model of economic development for developing countries. In the words of former Fed chairman Alan Greenspan (2007, pp. 130–31):

> After World War II, the European democracies all moved towards socialism, and the balance was tilted towards central government

> control even in America – the entire war effort by American industry had been effectively planned.
>
> There was a general belief that even though the Soviet Union and its allies were laggards economically, they were catching up to the wasteful market economies of the West.

The coming to power of the socialist Salvador Allende in Chile and his nationalization of the (mainly US-owned) copper mines marked a change in US policies. General Pinochet succeeded, with covert US aid, in overthrowing the Allende government (1973) but also succeeded in transforming Chile into a laboratory for neoliberal policy. Shock therapy was implemented whereby in a short time span all achievements in terms of social policy, education, price subsidies, nationalizations and economic regulation, were abolished.

Inflation rose to 375 per cent in 1974, and government expenditures cut by 27 per cent. Nevertheless, Milton Friedman, the Chicago professor who advised the Chilean junta and had trained hundreds of Chilean students since the 1950s, insisted that the program was not going far or fast enough. In 1975 he persuaded Pinochet to hit much harder. This resulted in an enormous increase in unemployment. Almost half the population had been pushed below the poverty line, and Chile had one of the world's highest rates of inequality. A deregulated financial system produced credit bubbles, and about 30 per cent of loans were not performing, saddling the country with debt that could only be paid off during a period of 25 years (see Klein, 2007).

Later, this shock doctrine would be implemented in other developing countries, as well. Instead of coups, financial pressure was used.

After the oil price explosion of 1973 (and later in 1979), the members of the Organization of Petroleum Exporting Countries were faced with enormous amounts of liquidity for which there was no immediate usage. This liquidity was recycled with the help of Western banks, which in turn were faced with too much liquidity. Also, people contributed increasingly to pension funds that sought investment outlets. At the same time, stagnation in the Western world made investments there less attractive. All this made money very cheap internationally. Often, interest rates on loans were lower than inflation.

From the mid-1970s onwards Western banks, encouraged by the US Treasury, started to actively lobby governments of developing countries to take up loans. The argument was that with the help of these loans, investments could be financed that would enable these countries to pay back the loans. Many developing non-oil-producing countries were in desperate need of money in order to pay higher import prices. First, Latin American countries were targeted. Latin American countries enhanced foreign borrowing from $75 billion in 1975 to $315 billion in 1982.[1] These loans were disbursed with no conditions attached and often given to governments that even did not hide the fact that they would not use these loans to develop their countries. Many developing countries became heavily burdened with often odious debts.

Since 1977 the IMF lent exclusively to developing and, later, post-communist countries. It also changed its remit from being a means of collaboration on exchange rates and payments mainly among the industrialized countries into an instrument of control over economic policies in developing countries. This could happen because Western influence, in terms of voting rights but also the composition of personnel, is overwhelming within the IMF.[2]

The IMF also changed its doctrine in many ways. The idea that regulation of international capital flows is a core right of member states was abandoned. During 1972–78 the IMF approved more than a hundred standby agreements while the scope of conditionality gradually expanded. In 1979 the IMF adopted guidelines on conditionality and aimed at structural adjustment rather than at short-term financial stabilization.

By 1982 the aggregate debt of developing countries rose to $600 billion. The loans were in dollars, and variable interest rates were coupled to prevailing interest rates in the United States. In 1980 Paul Volcker, the Fed chairman, decided to raise interest rates up to 21 per cent. In the United States this had a shock effect in the sense of depressing investment activity, but the shock was even greater in Latin America, where debtors were suddenly faced with mounting costs of servicing the foreign dollar debt they had incurred during the 1970s.[3] Moreover, investors left troubled countries. During 1979–82 $55 billion left Mexico. In August 1982 Mexico suspended repayment of its international debts. Many Western banks could not digest a Mexican bankruptcy. The US Treasury stepped in and organized a bailout, thereby preventing contagion (Panitch and Gindin, 2014, p. 214). Later, other Latin American countries would need bailouts.

Subsequently, the International Monetary Fund would come in while offering cheap loans that would allow these countries to serve their debts and also to be lent more by commercial banks that saw IMF approval as a sign of creditworthiness. The principle was that the burden was fully on the side of debtors and that more loans could alleviate a country's debt problem. The IMF transformed into the creditor's enforcer. It created 'moral hazard', which meant protecting banks from risk.

Often, loans to developing countries disappeared in private accounts abroad. For example, the World Bank estimated that Venezuela's flight capital exceeded its foreign debt by some 40 per cent by 1987. The 1998 IMF 'rescue package' for Indonesia approximated the estimated wealth of the Suharto family (Chomsky, 2000, p. 102).

After poor countries asked the IMF and World Bank for assistance, they had to submit to a four-stage program. According to Stiglitz (2002), the first step was privatization of public enterprises, which greatly enriched the local elites. This usually led to further economic decline and further need for loans. The second step was the liberalization of capital markets, allowing massive capital flight. Then poor countries were advised to increase interest rates drastically in order to attract capital, but thereby denying capital to local enterprises. The third phase was the introduction of market prices, which means abolishing subsidies on food, energy and water. This often led to popular unrest. The fourth phase was that of 'reducing poverty'.

The result of these IMF-imposed economic programs was that the output of Latin America in 1990 was 8 per cent lower than in 1980. During the 1980s Latin America transferred to its creditors a net $195 billion. The debt burden of indebted Latin American countries did not go down as a result of this shock treatment: it went up from $223 billion in 1980 to $443 billion in 1991. Structural adjustment led to massive changes in relative prices because price subsidies were abolished. This led to widespread suffering for the poor and increasing income inequalities.

In many developing countries, especially in Latin America, structural adjustment and opening up led to de-industrialization during the 1980s and 1990s. According to the United Nations Conference on Trade and Development (UNCTAD; 2012, pp. vii, viii), the main cause

> lies in their choice of macro-economic and financial policies in the aftermath of the debt crisis of the early 1980s. In the context of structural adjustment programs implemented with the support of the international financial institutions, they undertook financial liberalization in parallel with trade liberalization, accompanied by high domestic interest rates to curb high inflation rates or to attract foreign capital. Frequently, this led to currency overvaluation, a loss of competitiveness of domestic producers and a fall in industrial production and fixed investment even when domestic producers tried to respond to the pressure on prices by wage compression or lay-offs.

In many countries, trade liberalization was accompanied by deregulation of the domestic financial sector and capital account liberalization. This gave rise

> to a rapid expansion of international capital flows. International finance gained a life of its own, increasingly moving away from financing for real investment or for the international flow of goods to trading in existing financial assets. (UNCTAD, p. ix)

According to the UNCTAD (2012, p. 99), deregulation of finance (1) exacerbates economic instability, (2) responds perversely to changes in macroeconomic fundamentals, (3) tends to destabilize the domestic financial system and (4) tends to generate asset price bubbles. During the 1990s 72 financial crises occurred in low- and middle-income countries.

Obviously, the IMF acted fully in line with the interests of leading capitalist countries. Creditors have scarcely been punished for their often-reckless lending.[4] The program the IMF and World Bank imposed upon debtor nations dependent on IMF support was termed the 'Washington Consensus', named after the U.S. capital, where the institutions of international economic governance and the US Treasury agreed upon this consensus. It is a free-market economic philosophy that favors the deregulation of markets, the lowering of taxes and tariffs, and the privatization of government functions. The Chicago School of Economics was the main laboratory of the Washington Consensus. The market fundamentalism propagated by these economists and embraced by the international financial institutions ignored the experience of developed market economies. For example, the fact is that most developed nations, only in the 1970s – after they had a developed a regulatory framework and stable financial institutions in place – abolished restrictions on international capital movements.

Across the Global South the debt trap and IMF conditionality led to a broad movement of opening up economies and allowing foreign capital to enter. At the same time, conditions had been made easier for developing countries to channel resources abroad. Often through tax havens, money could be channeled back to Western banks that could recycle it again.

The policy of the International Monetary Fund and World Bank was to demand of debtor nations the dismantling of support for traditional agriculture and to focus on agricultural production for export. This meant an end to price regulation, food subsidies and buffer stocks. But 70 per cent of the world's food is produced by small farmers, and on less than

25 per cent of available farm land.[5] The result of the IMF programs is that nowadays global food stocks are at a record low. On the other hand, big agribusiness had large stockpiles of foodstuffs and practiced price manipulation. Also, Western nations continued to support their agricultural sectors and exported subsidized food products to the Global South. Worldwide, food conglomerates that controlled production, processing and distribution of agricultural products, took over from local farmers. By 2015, 70 per cent of poor countries were net food importers.

A study by the conservative Heritage Foundation found that in 48 out of 89 less-developed countries, IMF-supported programs did not lead to any improvements. An UNCTAD study showed very negative effects of IMF programs, which also led levels of indebtedness to rise to unsustainable levels (Peet, 2012, p. 115).

Unlike claims to the contrary from the World Bank, global poverty levels scarcely have been reduced during the period of globalization.[6] Also, the South did not catch up. Whereas during 1970–89 the average annual per capita GDP of developing countries (excluding China) was only 6 per cent of the per capita GDP of the G-7 countries, it dropped during 1990–2013 to 5.6 per cent (Foster, 2015).

The World Trade Organization

Free trade is promoted by the World Trade Organization (WTO, founded 1995 as an initiative of the United States and the EU which pushed other countries to join). The key WTO function is that of guaranteeing the rights of enterprises to operate across national borders, and the freedom of capital to move across those borders. It means that the WTO is not only dealing with trade but also with investment and general economic and social policies of member states. Basic requirements for entering the WTO is a liberal trade and investment regime with market-access commitments, liberalization of the service sector, protection of intellectual property rights and harmonization of standards and certification systems. The WTO operates an effective dispute-settlement system. This can be triggered by any government that believes rules are being broken. The WTO can be considered as a major vehicle of market rule. WTO rules are basically tailored towards the needs of developed capitalist countries, above all the United States.[7] This is the reason the WTO is the only global supra-national institution to which the United States has been willing to subordinate itself.

The World Trade Organization serves as a crowbar for the commercialization of public goods. Areas of life once considered as sacred, such as heritage and culture, health and education, seeds, genes and water, are being commercialized. The WTO undermines the ability of national governments to set up their own food-safety standards.

Behind the rhetoric of free trade, protectionist policies are discernible. For example, agricultural subsidies amounted to 59 per cent of total agricultural production in Japan – (Japan has a 700 per cent tariff on rice imports), while 34 per cent in the eurozone and 21 per cent in the United States (2001). While in the EU these subsidies substantially decreased during the 1990s and 2000s, they increased in the United States. Subsidies to the US cotton industry, up to $24 billion during 2000–10, have lowered the world price by 25 per cent, damaging producers in the South. The United States has ignored the WTO ruling that these subsidies are illegal.

According to Rodrik (2001, p. 58), WTO agreements – on anti-dumping, subsidies and countervailing measures, agriculture, textiles and trade-related intellectual property rights – lack any economic rationale beyond the mercantilist interests of a narrow set of powerful groups in advanced capitalist countries. Rodrik shows that available studies do not reveal any systematic relationship between a country's average level of tariff and non-tariff barriers and its subsequent economic growth rate. The evidence from the 1990s indicates a positive relationship between import tariffs and economic growth. History shows a clear pattern: countries dismantle their trade restrictions as they grow richer. According to Rodrik, the benefits of liberalizing capital flows are even weaker. There is overwhelming evidence that financial liberalization is often followed by financial crises.

The Asian crisis

Most newly industrialized countries in East Asia used state-led development and import substitution models up to the 1990s, protecting their economies through import barriers, capital controls while supporting industry and pursuing mercantilist export promotion. Under the pressure of the United States (using domestic allies), capital controls were loosened, and an enormous influx of cheap money led, during 1993–97 to very high levels of indebtedness. During 1993–96 foreign debt-to-GDP surged from on average 100 to 167 per cent. It was often hot money that flooded in. In South Korea the *chaebols* (large corporations) borrowed short-term money and used it for long-term investments. Hot money also led to bubbles in real estate across East Asia, to exchange-rate volatility and long-lasting external imbalances.

When in 1997 money inflows dried up, this led to a financial crisis and an exodus of money, exacerbating that financial crisis. The IMF, however, advised not to tighten capital controls. The countries that did not follow this IMF advice, such as China and Malaysia, succeeded in containing the fallout of the crisis. The other East Asian countries were faced with deep recession.

US-based hedge funds triggered the crisis through speculating on overvalued currencies.[8] Thailand had foreign loans amounting to 140 per cent of GDP and widening current account deficits. The Thai government threw away its currency reserves by defending an overvalued Baht against speculators. The same happened in South Korea and some other Southeast and East Asian countries. Conspicuous is that throughout the Asian crisis, the IMF failed to act proactively and continuously made wrong assessments.

The IMF stepped in with balance-of-payments support, which saddled the countries with even more debt. For example, South Korea received a $55 billion IMF assistance package.

The IMF program contained three crucial elements:

(1) Tightening of money supply and no increase in government spending;
(2) No write downs of debts;
(3) Recipient countries should be more open to foreign capital.

The result was that foreign buyers, especially from the United States, and especially hedge funds, could buy up business enterprises on the cheap.[9] Another result was a major blow to the East Asian state-led development model.

East Asian countries learned their lesson, and a major policy goal became to diminish indebtedness and to become less dependent on IMF support. During the 2000s most newly industrializing countries built up financial buffers. In Latin America, countries also pursued this policy. The IMF increasingly was ignored. Turkey was the last major customer of the IMF, with a credit of $20 billion that expired in 2008 (Peet, 2009, p.124). This left the IMF with less than $20 billion in outstanding credits, its lowest in 20 years and down from $100 billion three years previously (ibid.).

Another result of the Asian crisis was that growing surpluses of newly industrialized countries poured into the United States, contributing to a distortion of the US economy.

Failure of state socialism

The worldwide march towards the market that pushed back state-led development models in the Global South was helped very much by stagnation and subsequent disintegration of state socialism in Eastern Europe (1989–91) and the marketization of the Chinese economy (since 1979). State socialism ceased to be a viable alternative to capitalism.

The communist movement sought to overcome capitalism with a radical break, which meant the radical abolishment of private ownership of production. State socialism was characterized by (1) almost all means of production being de facto state owned and (2) the political and economic system being very much centralized and political opposition banned. There were few feed-back mechanisms, while economic coordination mechanisms other than state control were fully marginalized or absent.

State socialism in Eastern Europe introduced wide-ranging reforms, including full employment, universal health care, free higher education and pensions. Characteristic for state socialism was an almost de-linking from the capitalist world economy.

In the Global South state socialism had for a for long time been an attractive alternative to capitalism. State socialism constituted, in many respects, a counterforce to the power of global capitalism. Up to the late 1970s state socialism could boast higher economic growth figures than the developed capitalist countries, but Eastern European state socialism started to stagnate as a consequence of political debilitation, leading to increased corruption and clientelism. Also state-led development models in the South stagnated, thus enhancing the appeal of neoliberalism, which started to claim, 'there is no alternative'.

What is globalization?

Globalization means the emergence of a 'financial logic' within the international economy as the primordial logic. Globalization is primarily the globalization of capital, under the guidance of, among others, the IMF, World Bank and WTO. Markets need to be regulated and structured in order to function well and, therefore, the institutions of global economic governance try to impose regulations and coordination globally[10] On the other hand, international regulatory arbitrage, in which less onerous regulations in one country would be exploited to undermine stronger regulations in another, became central to the establishment of corporate globalization. Globalization means, above all, the financialization of the global economy. It removes barriers for global capital to flow. Capital often flows through tax havens, enabling multinationals, banks, criminals and the global rich to avoid taxation and regulation. The liberalization of capital accounts and the increased ability of private actors to create money have caused an explosion of global flows of money.

Global gross capital flows increased dramatically, from an average of less than 5 per cent of global GDP during 1980–99 to a peak of about 20 per cent by 2007 (IMF, 2014). Also, volatility in these flows has risen. Global financial assets increased from 120 per cent of global GDP in 1980 to 355 per cent in 2007 (McKinsey Global Institute, 2012a, p. 14). International Financial Integration, measured as the sum of foreign assets and foreign liabilities, expressed as percentage of GDP, increased from 70 per cent in 1980 to 445 per cent in 2010 for the advanced economies and from 35 per cent to 70 per cent in the same period for emerging economies (Lane, 2012, pp. 26–27). This explosion of capital flows also reflected the emergence of a truly global financial system.

Globalization is corporate globalization because it frees corporations from numerous regulations at the national level.[11] They can, with the help of accounting giants, make profits globally, but escape the law and taxes locally. Characteristic of the present epoch is also that processes of financing, research, production and distribution are integrated and concentrated in the hands of corporations that spread their influence all over the world. Many authors emphasize the 'impersonal forces of world markets that are now more powerful than the state' (Susan Strange, 1996, p. 4).

However, the international economic system is still anchored in national economies and framed by international economic institutions that are dominated by the United States. Globalization was also a political project furthered primarily by the US government, while the autonomy of US government in economic policymaking has been affected very little by changes in the global economy. Negatively affected has been the United States workforce. An informal US empire emerged in which all the other capitalist powers became integrated into an effective system of coordination under the aegis of the United States (Panitch and Gindin, 2014, p. 8).

The collapse of communism in Eastern Europe, the accelerated marketization of the Chinese economy and the opening up of countries that formerly relied on state-led development models brought about a doubling of the labor pool in global markets. This, combined with the new transport and communication technologies that enabled faster and cheaper transport and better coordination of global supply chains – as well as the opening for capital of a large part of the developing world – enabled during the 1990s a take-off of corporate globalization and massive relocation of labor. Instead of focusing on innovation in order to enhance competitiveness in the long run, short-term considerations began to dominate the decision-making of large corporations, in large part because shareholders' rule broadened.[12] The trend was cost-cutting by 'flexibilization' of labor markets and offshoring.

Concentration and centralization of capital globally

Globalization also means an acceleration in the worldwide process of concentration and centralization of capital.

Researchers at the University of Zurich studied the makeup of the global corporate economy, looking at all 43,060 transnational corporations (TNCs). They concluded that there is a group of 1,318 companies at the heart of the global economy. Less than 1 per cent of multinational companies control 40 per cent of this entire network. They found 'that TNCs form a giant bow-tie structure and that a large portion of control flows to a small tightly knit core of financial institutions. This core can be seen as an economic "super-entity"' (Vitali et al., 2011). Out of the top 50 companies, 24 are US-based, followed by 8 in Britain, 5 in France, 4 in Japan, and Germany, Switzerland and the Netherlands with two each; Canada has one. The authors conclude that 737 holders have amassed 80 per cent of the control over the value of all TNCs, and 147 have 40 per cent of the control over those TNCs. The top 20 firms identified in the study tended to be financial institutions.

The top 500 TNCs account for nearly 70 per cent of worldwide trade (WTO, 2001). The stronger negotiating position of TNCs is not only related to their growing size and financial power but also to the weakening of the national government in most countries.

The ten largest corporations account for 86 per cent of global telecommunications, 85 per cent of pesticides, 70 per cent of computing and 35 per cent of pharmaceuticals.

Global food chains are increasingly dominated by TNCs. Monsanto is one of the three corporations (along with DuPont and Syngenta) that control 70 per cent of the global seed market. Monsanto owns the patents to 90 per cent of Genetically Modified seeds. ADM, Bunge, Cargill and (Louis) Dreyfus (A, B, C, and D) account for 90 per cent of the global grain trade.[13] A, B and C have strategic alliances with seed and agrochemical companies that dominate the agricultural input of the global food production system. They have turned the raw material of food into patents. According to UK public health experts ''the most powerful corporate sectors of the world's food system are increasingly concentrated to the point of oligopoly'.[14]

In the global automotive industry, five TNCs produce almost 50 per cent of the 'motor vehicles. The 10 largest firms control 70 per cent (Foster and McChesney, 2012, p. 73). These global rivals have often made alliances among each other in order to cooperate in production and in global supply chains. In commercial aircraft we can speak about a duopoly (Airbus and Boeing).

Instead of a new era of global competition, globalization inaugurated an era of oligopolistic rivalry on the international level. Firms often have sufficient power to influence the price, output and investment of an industry. At the same time firms adopted, through global restructuring of production, a divide-and-rule approach to labor world-wide.

About 60 per cent of global trade consists of intermediate goods and services that are incorporated in the various stages of the production process.[15] There is a growth of non-equity modes of international production (NEM), which means contracting enterprises in such a way that they are an integral part of a supply chain that is totally dominated by a transnational corporation. NEM amounted to more than $2 trillion of sales in 2009. NEM's are growing more rapidly than the industries in which they operate. These are used by TNC's to circumvent social and environmental standards (UNCTAD 2012, p. ix). Another new development is the important role of supermarkets in reorganizing supply chains. These supermarkets, but also fast-food chains like McDonalds, control supply chains. Increasingly, global production chains are becoming controlled by TNCs.

Profound changes have occurred in the size, scope and methods of foreign direct investment (FDI). New information technology systems and a decline in global communication costs have enabled integration of supply and production systems and have made management of foreign investments far easier than in the past. Also, tariff liberalization, easing of restrictions on foreign investment and acquisition in many nations, and the deregulation and privatization of many industries have functioned as catalysts for FDI's expanded role.

The most profound effect has been seen in developing countries, where yearly foreign direct investment flows have increased from an average of around $3.5 billion in the early 1970's to about $18 billion during the early 1980s, around $220 billion during the early 2000s and $684 billion in 2011 (UNCTAD). In 2010, for the first time more than half of global FDI flowed South, especially to East Asia (UNCTAD, 2012, viii). Concomitantly, the share of global industrial employment in the South increased from 52 per cent in 1980 to 83 per cent in 2012 (Foster, 2015).

Most capital flows are not financing investment. As Adair Turner, former chairman of the UK Financial Service Authority, noted:

> Huge two-way gross capital flows are driven by transient changes in perception, with carry-trade opportunities (borrowing in low-yielding currencies to finance lending in high-yielding ones) replacing long-term capital investment. Moreover, capital inflows frequently finance consumption or unsustainable real-estate booms. And yet, despite the growing evidence to the contrary, the assumption that all capital flows are beneficial has proved remarkably resilient.[16]

US economic power and the 'New World Order'

Despite massive relocation of labor to the Global South, the United States has succeeded very well in consolidating its economic hegemony.

After the end of the Cold War the United States emerged as the only superpower and dominated world affairs more than any other global power has done. In the 'New World Order', inaugurated by President George H.W. Bush in 1990, with the United States at its epicenter, economic and military power are closely intertwined. The US administrations seemed to take the British Empire as an example. One of President George W. Bush's closest advisors, R.H. Haass, quoted J. Gallagher and R. Robinson (*The Imperialism of Free Trade*):

> British policy followed the principle of extending control informally if possible and formally if necessary. To label the one method "anti-imperialist" and the other "imperialist" is to ignore the fact that whatever the method British interests were steadily safeguarded and extended. The usual summing up of the policy of free trade empire as "trade not rule" should read "trade with informal control if possible; trade with rule when necessary".[17]

The United States profits enormously from its dominant position in the world economy. Therefore Henry Kissinger could say (1999) that 'the basic challenge is that what is called globalization is really another name for the dominant role of the United States'.[18] Globalization and associated financialization was driven by the United States and centered around the dollar. US influence in the IMF and the World Bank helped very much. The United States is the only country with a right of veto in the IMF. It means that the IMF never can adopt policies contrary to the United States. The United States has 16.75 per cent of the votes in the IMF.[19]

The United States is the only country that can allow itself a current account deficit over a long period of time. It allowed overspending by American consumers and allowed government budget deficits over prolonged periods. The reason is that the United States is the world's central banker. It can issue money to the world economy to the extent that the demand in dollars is growing, irrespective of the vicissitudes of the domestic economy. Americans are the consumers of last resort.

In the United States, the deficits have been partially offset by huge net inflows of capital, in the form of foreign direct investment, deposits in American banks and the purchase of American government obligations.[20]

Over the past 30 years, the United States has had continuously large current account deficits whereas, before the 1970s, there were large surpluses.[21] Net private capital flows were mostly positive for the United States, despite massive relocation of industrial activities from the United States to cheap-wage countries.[22]

However, the statistics of net capital flows do not capture the enormous amounts of money flowing in and out of tax havens, their being outside the jurisdiction of the United States, but a large part of which is under the control of US corporations and financial institutions. The new global financial infrastructure (with its web of tax havens centered around New York and London) and the dollar being the only safe haven, with capital liberalization in most countries, has functioned as a kind of vacuum cleaner, sucking up the world's surpluses in the direction of the United States. With globalization the rest of the world started to lend to the United States more money than it had ever loaned before. Since the mid-1990s the amount of foreign-owned assets in the United States became larger than the amount of US-owned assets abroad.[23] The net international investment position of the United States changed from more than 10 per cent of GDP in the late 1970s to minus 26 per cent in 2013 (US Department of Commerce). The world's money flows to the United States. In 2013, the United States had 34.7 per cent of the world's capital imports, the UK 9.9 per cent and together with Australia and Canada they together had a combined 54 per cent.[24]

The advantages of being the world's hegemonic power by far outweigh the burdens.

Former Fed Chairman Volcker said in 2005:

> What holds (the US economic success story) all together is a massive and growing flow of capital from abroad, running to more than 2 billion dollars every working day, and growing ... [;] ... the central

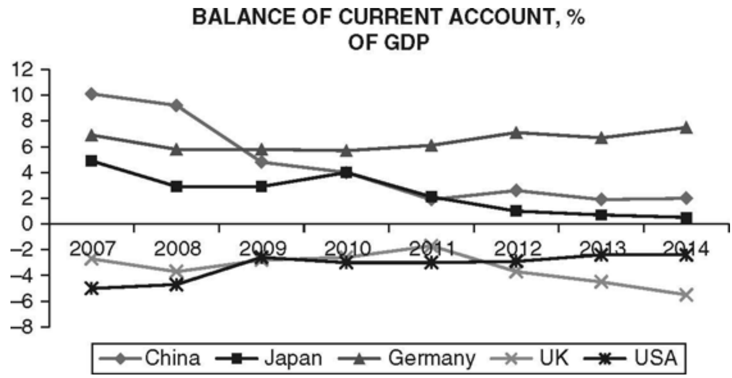

Figure 6.1 Balance of current account, United States, United Kingdom, Germany, Japan and China, in percentage of GDP, 2004–14
Source: OECD.

banks of the emerging world have been willing to hold more and more dollars, which are, after all, the closest thing the world has to a truly international currency. The difficulty is that this seemingly comfortable pattern can't go on indefinitely. I don't know of any country that has managed to consume and invest 6 per cent more than it produces for long. The United States is absorbing about 80 per cent of the net flow of international capital.[25]

Some think Keynes's idea of an International Currency Union can provide the needed stability. In a BBC interview (Radio 4, 17 January 2011) the question for IMF Chairman Dominique Strauss Kahn was how the global economy ought to be reconfigured in the aftermath of the 2008 crisis. His answer was: 'Never in the past has an institution like the IMF been as necessary as it has been today……Keynes, sixty years ago, already foresaw what was needed; but it was too early. Now is the time to do it. And I think we are ready to do it!'. Two years after this statement Strauss-Kahn was arrested in New York under suspicion of rape of a hotel maid. Subsequently, he had to resign. The idea of an International Currency Union was removed from the table.

American economic power is also used to force trading partners to comply with American foreign policy objectives and to impose decisions at international financial institutions (like the IMF) in pursuit of political goals. For example, when the United States persuaded Pakistan to help in the attack on Afghanistan after the terrorist attack on 11 September 2001, it promised Pakistan new IMF loans. Foreign companies are punished if they conduct trade with countries that are suffering under economic sanctions of the United States. For instance, BNP Paribas has been fined $10 billion for violating the US embargos against Cuba and Iran. As Felix Salmon wrote in the *Financial Times* (6 June 2014), ''America is making its banking laws not to make its financial system safer, nor to protect its own citizens from predatory financial behavior, but rather to advance foreign policy and national security objective(s)'. Generally, foreign companies can be prosecuted for what the US considers as misdeeds abroad. The link to the United States could be very shallow, for example having used dollars in illicit transactions. US corporations have the advantage of being backed by a powerful state while the clout of the EU and Japan in supporting their corporations in the international arena is much smaller.[26]

In the New Economy, the United States has become the major hub through which most electronic communications are channeled. For example, Internet traffic is largely channeled through the United States. This poses security problems for US competitors.

The US was the major mover behind telecom deregulation all over the world. It became a requirement of the World Bank and IMF in structural adjustment programs. By 2001, 62 per cent of global information technology business originated in the United States, and American companies owned 75 per cent of the global software market. Almost all commercial satellites are US-owned. Obviously, the US was the winner in the battle over dominance of the information society.

American intelligence resources are used to help American corporations. Worldwide eavesdropping in the framework of the 'Echelon' program, effective from the late 1970s, in which the US secret services cooperate with the secret services of the UK, Australia, New Zealand and Canada, also involves industrial espionage against the EU.[27] One of the conditions of the Echelon program, also called the 'Five Eyes' agreement, is that participants coordinate their foreign policies.[28] Especially the UK secret services are helpful to the United States because of the less-stringent UK legislation with respect to wiretapping. A report written for the European Parliament estimated that the Echelon eavesdropping helped American companies obtain European orders to an amount of $26.7 billion between 1993 and 2000.[29] The French government advises enterprises that negotiate contracts above $1 million not to use mobile phones and email, given the above-mentioned interceptions by the Anglo-Saxons.

In the case of Germany after World War II, the Allied forces were entitled, according to secret treaties, to spy on all post and telephone communications in and passing through Germany. This also included electronic communications. These secret treaties are still in force, thus effectively undermining the sovereignty of Germany.[30] In 2015 it became known that the German intelligence services assisted the NSA in spying on European corporations (even those in which Germans participated) and the European Commission.

The US Foreign Intelligence Amendments Act (2012) authorizes mass surveillance on foreigners' data if it is stored using US cloud services, such as the services offered by Google, Facebook and Microsoft. It allows targeting of real-time communications. It became known in 2006 that the United States is secretly accessing data from SWIFT, the Brussels-based institution that is processing international financial transactions.[31]

Given US electronic capabilities, we can speak about an emerging 'American global security state'.[32] The most profitable and most widely used websites are all American. All this guarantees US structural domination of cyberspace. The introduction of a multilateral governance system, in the framework of the International Telecom Union, is opposed by the US and its allies.

Gradually, the nations of the North are becoming integrated into a single military system, loosely grouped around the United States, which calls the shots, and the Anglo-Saxon countries are the closest allies and the first to assist the United States in combat actions. This process accelerated after the demise of the Soviet Union and after the terrorist attack on 11 September 2001, which led to a broad anti-terrorist coalition around the United States. Nowadays, US spending on defense equals that of the defense budgets of the next 15 highest-spending countries combined.

However, below the surface of US dominance in the sphere of the military and information society there are economic trends that are going in opposite directions. During the 1990s the United States could further strengthen its lead over economic rivals. The number of American firms in the world's top 500 increased to 239 in 2001. However, trends changed during the 2000s. In 2014, among the *Fortune* top 500, 128 were American. Between 2005 and 2012 the number of Chinese firms in the top 500 increased from 16 to 95. This reflects the shift of economic power away from the United States (and the West in general).

Globalized finance and Anglo-Saxon corporate globalization

At the global level, international economic institutions like the IMF, World Bank, OECD and World Trade Organization promote the Anglo-Saxon variant of capitalism as the superior model of capitalism. The Anglo-Saxon type of liberal capitalism is propagated as a model that fits all.[33]

The rest of the world followed US standards with respect to accounting practices. Everywhere in the world it is the US accounting firms that are hired by corporations and public authorities alike. Everywhere the three major US rating agencies are considered to be authoritative, despite their dismal record, and they have no competition outside the United States.[34] In the late 1990s the US global share of business services, measured by revenue generated, was close to 40 per cent (Panitch and Gindin, 2014, p. 191).

The explosively growing financial power of US and British corporations helped them by supporting a wave of mergers and acquisitions from the early 1990s onward that reached a peak in 2000 with a global value of $3.1 trillion. Private equity funds and hedge funds are the most-used instruments for mergers and acquisitions. The countries that had the most deregulated financial markets had the most mergers and acquisitions. In 2011, the US global share was 37 per cent, while the share of the United States, UK, Canada and Australia combined was 51.5 per cent.

Together with alternative assets and funds of wealthy individuals, total assets of the global fund management industry are around $120 trillion.[35] The US remains by far the largest source of funds, accounting for nearly a half of all conventional assets under management.[36] The UK is the second-largest host of funds in the world, and by far the largest in Europe, with 8 per cent of the global total, closely followed by Japan.

The five biggest US investment banks had, by early 2013, a 40. 3 per cent global market share, the two biggest British investment banks 12.5 per cent.[37] In that year, 82.2 per cent of the world's hedge funds were based in the United States and 9.3 per cent in the UK.[38]

If we take the global amount of foreign claims of the banking and non-bank private sector, the United States accounted in December 2012 for 30.9 per cent (BIS data). The trade in foreign currencies, in 2013, amounting to $5.3 trillion a day ($3 trillion a day in 2007), is mainly speculative in character and driven by non-banking institutions and high-frequency trading.[39] Close to two thirds of FOREX trade is conducted in London and New York.

During the past decades, the stock markets in the Anglo-Saxon countries expanded much faster than in the other industrialized countries.[40] In December 2012, the UK and the US had together 54 per cent of global equities' turnover.[41] The UK and United States had in 2011 63 per cent of global funds management and 71 per cent of corporate finance. These activities were concentrated in New York and London, which are the world's truly global financial centers. The international significance of Tokyo rests primarily on the strength of the Japanese economy itself.

London and New York are the major centers of corporate headquarters. The predominance of London in the hierarchy of European financial centers contrasts with the meager performance of the British economy in a European perspective.[42] London got a boost during the 1970s when it became a major center for recycling petrodollars and an outpost for US banks and companies after the US abolished capital controls. This was also related to the fact that remaining US restrictions on interest ceilings did not apply in London. American banks' overseas assets increased from $80 billion in 1976 to $300 billion in 1981, with most of their lending handled out of London (Hutton, 2002, p. 191).

The United States and the United Kingdom constitute the core of a financial empire that does not need any gunboat diplomacy to compel debtor nations to submit. As Jerome Roos (2013) noted,

> Through its control over capital flows and its ability to withhold much-needed credit, the global bankers' alliance (made up of the big banks and institutional investors, along with international financial institutions and the financial and monetary authorities of the dominant capitalist states) has obtained a form of structural power that allows it to discipline the behavior of indebted countries without having to resort to military coercion.... ...It is this discipline enforced by global capital markets and financial institutions that forms the backbone of Financial Empire. Financial Empire dissolves the notion of national sovereignty altogether by subverting the power base and popular legitimacy upon which the modern state ultimately depends: its ability to direct the flow of capital through monetary and fiscal policy.

As Roos (2013) says, the state 'is gradually stripped of its ability to control the de-territorialized flows of investment upon which it relies for its continued existence'.

The global financial system is often portrayed as something supranational, as a de-nationalized system. However, the main arteries of this system are leading to New York and London, while the United States is the only state that can really financially hurt dissenting countries. For example, the US government can tell Visa and MasterCard to block their global services for banks that are on the US sanctions list, as happened with the Russian Rossyia bank in March 2014.

Tax havens and the new global financial infrastructure

A crucial ingredient of the new global US-led financial infrastructure is the web of tax havens. Tax havens are jurisdictions that promise secrecy and low or non-taxation of assets placed there. These 'secrecy jurisdictions' allow wealthy individuals, firms and criminals to hide wealth and to circumvent the law. It constitutes the 'fortified refuge of Big Finance' (Foster, 2015). Tax havens have multiplied and exploded in size since the 1970s and became crucial in a corrupt international financial infrastructure. Tax havens received a boost with the development of the eurodollar market in the 1970s. Eurodollars are dollars stored outside the usual sovereign jurisdictions. Tax havens attract and catch mobile international capital flowing, just as a spider's web catches passing insects (Shaxton, 2011, p. 15). Shaxton estimated that ''half of banking assets and a third of foreign investment goes through the off-shore system' '(2011, p.26). Most tax havens are small sovereign territories but sometimes also sizeable countries, like the Netherlands. It can be part of a federal nation, like Delaware in the United States, or concentrated in a tiny part of a country, like the City of London, which stands apart in some ways from the rest of Great Britain. Many territories under the British Crown and controlled by the British government, and scattered around the earth, are tax havens (nearly half of global tax havens – 73 – are controlled by the United Kingdom). Most tax havens have intimate relations with the two major global financial centers, London and New York. The offshore world is not so much a bunch of independent states as 'a set of networks of influence controlled by the world's major powers, notably Britain and the United States' (Shaxton, 2011, p.20). Jeffrey Sachs noticed that 'the darker truth is that those (tax) havens are not gaps in the world's financial system, they are the system', and 'the prime movers of the world's tax havens are the United States, Switzerland and the UK'.[43]

Global Financial Integrity (GFI) estimated that the cross-border flow of the global proceeds from criminal activities, corruption, and tax evasion at $1–1.6 trillion per year, half from developing and transitional economies (2007).

The ultra-wealthy, banks and corporations from around the globe had in 2012 some $32 trillion of wealth hidden in off-shore tax havens, according to the International Consortium of Investigative Journalists.[44] This amounts to 44 per cent of global GDP. It is nearly triple the figure of $11.5 trillion from 2005.[45] J. Sachs noticed: 'This is a time bomb, not a financial system'.[46]

The Caymans with 56,000 people host 92,000 companies and are the domicile of 45 per cent of the world's hedge funds. The Bank of International Settlement estimates that $1.4 trillion in bank assets and liabilities are there, around $25 million per person. Tax Research UK has estimated that EU governments lose up to €1 trillion each year to tax evasion, a higher amount than governments spend on healthcare across the 27-country bloc.[47]

Research on 40 African countries has shown, for example, that the accumulated stock of capital flight from 1970–2004 was about $607 billion as of end-2004, compared to external debts of 'only' $227 billion (Tax Justice Network). The most complete estimates indicate that the combined illegal capital flight from developing countries represents between 6 and 8.7 per cent of their GDP.[48] By comparison, tax revenues for the poorest countries amount to about 13 per cent of GDP. Income transfers through manipulated transfer prices probably account for the largest part of the illegal money flows from developing countries.

Gross registered capital flows to developing countries totaled $571 billion in 2006 (WB data, 2007). Donor grants accounted for $70 billion of this. Global Financial Integrity estimates that in 2011 about $1 trillion in illicit capital flowed from the South to the North.[49] At least half of the money borrowed by the largest debtor countries flowed right out again under the table, usually in less than a year, and typically in just weeks (Shaxton, 2011, p. 160).

Organized crime can launder money through tax havens with a click of the mouse of a computer. Global banks became the financial services wing of drug cartels. Drug traders use the most sophisticated methods, including financial, to organize their trade.[50] The international level, also within the EU, became an institutional no man's land, where crime, power and money easily link.

Western power and the newly industrialized countries

Tax havens are part of a recycling mechanism that serves the United States very well. Another is that of selling US Treasury bills abroad. After the Asian financial crisis (2007–08) a new understanding emerged between the United States and a number of Asian countries: the United States would buy their products, running huge current account deficits, while the opposite side of the deal would be buying up US Treasury paper. The influx of foreign money in the United States helped to inflate bubbles in the United States. A similar deal was struck much earlier with Saudi Arabia and some other Gulf states. This recycling mechanism created enormous amounts of liquidity in the United States. Chinese imports kept US inflation down and Chinese savings kept down US interest rates. Chinese labor kept down US wages. East Asian savings, among other factors, facilitated a surge in bank lending in the United States.

There was an increase in US imports from 13 per cent of GDP early in 2002 to almost 18 per cent in late 2006 (Greenspan, 2007, p. 349). According to Greenspan (2007, p. 349), it was above all the status of the US dollar as the world's foremost reserve currency that allowed this to happen.

The above-mentioned external imbalances also broke the connection between US domestic savings and investments. Until approximately 1995 domestic savings were directed almost wholly towards domestic investment. When, during the 1990s, restrictions on cross-border capital flows started to be lifted, this changed. All over the world the home bias decreased. It was, in 1992, 0.95 while in 2005 at 0.74. This points at a global disconnect between domestic savings and domestic investments (Greenspan, 2007, p. 351).

All this led to growing trade imbalances worldwide. The absolute sum of all countries' current accounts imbalances amounted to 2–3 per cent of global GDP in 1980–96; it amounted to 6 per cent of global GDP in 2006. Up to the mid-1990s trade imbalances were rare (Greenspan, 2007, p. 355).

A de-nationalized global elite and inter-capitalist rivalry

An important aspect of the spread of neoliberalism across the world was the cooptation of national elites. Up to the 1970s, the fate of the national elite was closely linked to that of the nation-state in which they resided. It was not so easy to transfer capital or activities abroad while their outlook used to be less cosmopolitan (tax havens were less important and corporate capture of the state less prominent). Since then, national elites became, to a certain extent, de-nationalized.

If education and healthcare deteriorate, the elite organizes its own (private) healthcare and education, or goes abroad for it. It means that the elite is withdrawing from the national social contract: they have no interest in joining the building of a better nation. The new rich no longer need the working and middle classes of their 'home' countries.

The global plutocracy became richer very quickly.

High Net Worth Individuals (HNWI) top 1 per cent had, in 1997, 20 per cent of global wealth; in 2007, 35 per cent. The total number of billionaires grew from 1,360 in 2009 to 2,170 in 2013 according to the Swiss bank UBS. The richest individuals in the world have more assets than the poorest 2.5 billion people together. [51]

Because the elite is increasingly disconnected from the society in which they are living, their sensitivity to social change is undermined. It furthers the notion that society does not exist (Thatcher).

According to Chrystia Freeland (2013) 'The rich have become a trans-global community of peers who have more in common with one another than with their countrymen back home'.[52]

The transnational capitalist class is maybe internationalized, but not politically neutral with respect to major capitalist countries. Their sympathies are primarily towards the Anglo-Saxon heartland of global capitalism, with the United States at its core.

They might move to, above all, the United States and the UK in order to protect their wealth. [53] It is telling that the richest seven Brits were all born outside the UK.[54] The Davos class, comprising of about 6–7,000 individuals, is primarily from Europe and the United States. A study of P. Phillips and R. Osborne shows that in the top of global corporations and asset management firms161 individuals collectively control 13 firms that control $23.9 trillion in assets; 45 per cent are Americans and 16 per cent British, while 88 per cent are from North America and Western Europe combined.[55] Although there is an emerging East Asian plutocracy, with one third of the world's billionaires, its global political influence does not yet match its wealth.

The transnational capitalist class also lets primarily US- and UK-based asset management firms manage their finances. This class sends its children primarily to US and UK educational establishments. The example of the Chinese business elite is telling. The International Consortium of Investigative Journalists found that between $1–4 trillion in untraced assets have left China since 2000; 16 of China's richest individuals (with a combined net worth of more than $45 billion) have connections to companies in the British Virgin Islands.[56] Also, the Russian oligarchy has their assets mainly in NATO countries, such as Latvia, the United Kingdom and the United States. This does not prevent Chinese and Russian governments being assertive in defending what they perceive as their national interests, in defiance of the United States.

Conclusion

We have shown how since the late 1970s the world economy has gradually entered a qualitatively new phase. New technologies enabled global supply chains to develop and deepen, but it was above all the liberalization of capital controls in most countries that allowed a new division of labor. While business has been globalized, regulation has remained predominantly national, increasing the scope for regulatory arbitrage while WTO rules enhanced the freedom of capital internationally. The doubling of the global labor pool, especially since the entry of former socialist countries into the capitalist world economy, pushed northern captains of industry to relocate on a massive scale. New financial products and financialization gave corporations and (shadow) banks of the United States and the United Kingdom a comparative advantage. The United States used to the utmost its role as global banker, and it captured a major part of the world's savings.

The new financial infrastructure – with New York, London and the web of tax havens at its epicenter – allowed a new globalized elite to siphon off resources, managed and recycled by, above all, the financial institutions in New York and London. A global casino has been created that invited the rich and powerful across the globe to participate, while states around the world are shifting the tax burden onto those who cannot avoid taxes.

Despite the global tectonic shifts in the direction of East Asia, a global elite is united in its efforts to squeeze labor without any loyalty to one's 'own' nation state. Although global economic governance mechanisms, the new global financial infrastructure and dominance in information technologies has favored the US very much, the economic and political decline of the United States has accelerated since the late 1990s.

Financial globalization made capital flows the main conduit for the transfer of global shocks. Especially small and medium-sized economies cannot adequately protect against hot money flows. Financial globalization increasingly has caused instability in the advanced capitalist countries.

7
The Variety of Capitalism after the Great Financial Crisis

Despite the fact that all developed capitalist countries share common problems and tendencies, the Great Financial Crisis that started in 2007–08 in the United States has, above all, destabilized the financial systems in the North Atlantic countries. Chapter 5 shows that the crisis in the eurozone is first and foremost a banking crisis, aggravated by a flawed single currency. The Great Financial Crisis revealed flaws in the deregulated and increasingly interconnected financial system that emerged during the past three decades in North Atlantic countries. There, the crisis has led to a renewed emphasis on neoliberal policies.

Japan: Less vulnerable

The Great Financial Crisis hardly affected the Japanese financial system because it was not intertwined with the US financial system. Japan was indirectly hit by the crisis, and GDP decreased mainly as a result of an implosion of exports (by 16.4 per cent in 2009) and a deep fall in the stock market (Nikkei lost half of its value in ten months) as a result of the withdrawal of foreign investors. In 2008 GDP fell by 1 per cent and, in 2009, by 5.5 per cent. In Japan, unlike in most EU countries, no bailouts of big banks were needed. They had already deleveraged following the crisis of the 1990s and had offloaded most of their bad debt. Moreover, much more than in the North Atlantic, Japanese banks depend on deposits for their funding base (IMF, 2013b). Since the early 1990s financial-sector debt as a percentage of GDP remained almost constant. The conservative policies of Japanese banks are echoed in IMF demands for deeper integration of Japan into global markets and more risk-based allocation of capital (IMF, 2013b).

Since September 2008, the Japanese government has also reacted differently from the US and most European governments. It introduced a prolonged fiscal stimulus (about 5 per cent of GDP) that focused above all on investments in the real economy. In the United States the fiscal stimulus also amounted to about 5 per cent of GDP, but was less focused on the real economy (tax reductions, support for banks). In Japan investment levels (around 20 per cent) remained at much higher levels than in other developed economies, and business enterprises swiftly restructured as a result of the crisis.

A big problem in Japan is the continuous reduction of the share of labor in GDP (from 73 per cent in 1999 to 59 per cent in 2013; ILO database). Also, after the onset of the financial crisis there was a squeeze on labor (real wages in 2013 were 98.7 per cent of the 2007 level, in the United States 101.4 per cent, ILO).[1] As a result, demand stagnated, the appetite to invest diminished and firms preferred to hoard cash. Corporate cash holdings attained 44 per cent of GDP (2013; for comparison, in the United States, 11 per cent).[2]

Early 2013 Japan's new prime minister, Abe, introduced a new economic policy geared at boosting domestic demand with an enormous monetary stimulus aimed at enhancing wages. There are risks involved. Japan already has an enormous public debt (gross public debt, 234 per cent of GDP, net public debt 138 per cent of GDP, 2014 Q2), much higher than other major developed countries.[3] Moreover, with 520 per cent of GDP (2013) the total debt of Japan (including private debt) is extremely high.[4] Of this debt, 95 per cent is held by domestic institutions (20 per cent by the Japanese Post Bank and another 60 per cent by Japanese banks, pension funds and insurance funds).[5] Moreover, the Japanese government borrows at 1 per cent from its own central bank and then invests in, for example, US Treasury bonds that yield 1.6 per cent. The Bank of Japan can, in principle, decide to lower the interest rate on government bonds it holds to zero per cent, monetizing in this way a substantial portion of Japanese government debt (by mid-2014, 22 per cent of government debt was held by the Bank of Japan; the expectation is that this share will rise to 40 per cent; McKinsey, 2015, p. 33).

Prime Minister Abe's economic policy did not turn the economy around. From June 2013 to June 2014 there was even an economic decline, partly related to increasing the sales tax from 5 to 8 per cent. Only late 2014 did the economy start growing again.

Although financial debt in Japan is rather high (the value of financial assets is 370 per cent of GDP, while 417 per cent is the average for advanced economies; 2012), the level of financial globalization is rather low (the sum of foreign financial assets and liabilities is around 100 per cent of GDP, while this is 250 per cent for the United States).[6] The outward stock of foreign direct investment is only $1,049 billion, in the same category as Switzerland with $1,041 billion and Belgium with $1,024 billion (end 2012, CIA). However, Japanese banks are lending a great deal abroad.

It is noteworthy that Japanese banks have vigorously expanded abroad since the Great Financial Crisis. The share of foreign assets in total assets of Japanese banks increased from 20 per cent in 2009 to more than 40 per cent in 2013.[7] Japanese banks also expanded in non-lending activities abroad. By March 2015, Japanese banks had foreign claims totaling $4,641 billion, more than any other country (BIS, 24 July 2015). Japanese expansion was mainly in East Asia.

Like Germany, Japan also has a small shadow banking system.

In the West the Japanese experience is seen as a warning. Since 2008, however, Japan has in many respects weathered its financial crisis better than many Western countries. For example, the unemployment rate remained on rather low levels (3.3 per cent in April 2015, a maximum of 5.8 per cent since 1991) while living standards scarcely fell. Household debt is, like in Germany, relatively low (65 per cent of GDP, 2014, McKinsey, 2015, p. 116).

The external position of Japan is favorable. Until recently it ran current account surpluses (declining since 2008) and its net international investment position reached a very good 56.1 per cent of GDP (mid-2011; compare with -13.1 per cent for the United Kingdom and -16.9 per cent for the United States). Japan's net external assets comprise the enormous amount of $3.2 trillion and in this regard Japan has been, for a long time, the world's largest creditor.[8] Almost half of these external assets are holdings of foreign securities. Total external debt is a modest 45 per cent of GDP (mid-2011). Conspicuous is Japan's low inward foreign direct investment stock, at 3 per cent of GDP (OECD average: 32 per cent of GDP; 2013).[9]

Japan has scarcely been exposed to financial derivatives. At the end of December 2012 Japan had $118 billion in financial derivatives, that is 3.3 per cent of global derivatives contracts.[10] Generally, Japan is less vulnerable to major external shocks than other developed capitalist economies. Japan has retained more features of a national capitalism than most other OECD countries. Japan always has been keen to protect against foreign sources of volatility. For instance, its huge government pension and investment fund only has 23 per cent of assets in foreign bonds and equities.[11]

The North Atlantic: Rot in the center of the global economy

Although the Great Financial Crisis of 2008–09 affected the whole world, above all it destabilized the North Atlantic region. Compared to that of the United States and the EU, the Japanese banking system is healthy (IMF, 2013a, p. 32). Japan is not part of the system of mutually assured financial destruction that emerged in the North Atlantic because its level of interconnectedness is lower. Also in South Korea, the financial system is not much internationalized.[12]

The financial crisis originated in the United States and immediately the financial systems of most EU countries were contaminated. The financial derivatives produced by a select group of major US banks were above all sold in Europe, mostly to banks, through London offices. European banks depended very much on the money markets of the United States.[13]

When examining certain individual EU countries, such as Germany, it seems the financial system is not dysfunctional: Indebtedness of state, corporate sector and households is low or moderate; the shadow banking system is small; and the financial sector better regulated than in most other EU countries (see Chapter 5). The total value of bonds, equities and bank assets as a percentage of GDP is low (317 per cent) compared to the EU average (529 per cent; in the United Kingdom, 804 per cent; France, 597 per cent; 2012).[14] Financialization of the German economy is less advanced compared to the Anglo-Saxon countries. However, if the degree of internationalization of the German financial system and the exposure to risky foreign loans and financial derivatives are taken into account, the picture looks quite different. Many big German banks are wobbly.[15] Unlike that of Japan, Germany's export model is, to a large extent, dependent on the financing of its trade surpluses by transferring its savings to the rest of the EU, creating in this way unsustainable external imbalances.

The EU has created, especially within the eurozone, a space in which the financial industry can take extraordinary risks, irrespective of eventual stricter conditions at the national level.[16] The EU can be seen as a microcosm of globalization, especially in the financial sphere. In the eurozone peripheral countries, foreign investors have withdrawn and ECB support has become the main flow of inbound capital. The financial system of the eurozone has proven to be dysfunctional. Taken as a whole, the level of international financial integration of the EU is even higher than in the United States. For example, Global North banks lending to the Global South are above all from the EU.

The world's most important financial center, the City of London, is in the EU.

Large part of many global financial activities – such as investment banking, FOREX trade, stocks trade and investment funds – is concentrated in the North Atlantic region, especially in the United States and the United Kingdom (see also Chapter 6). For example, 65 per cent of global foreign claims of banks (ultimate risk basis) are in North America and the developed economies of Europe – not taking into account claims of offshore centers that are mostly connected to the United States and the United Kingdom (BIS, 4th quarter, 2012).

The unregulated shadow banking system poses a great risk to financial stability, and it is this system that is much more important in the United States and Western Europe than elsewhere.[17] Shadow banking, where a lot of illegal activities are taking place, grew from $50 trillion in 2008 to $67 trillion in 2013.[18] In the eurozone it increased from 150 per cent of GDP in 2007 to 180 per cent of GDP in 2014 (in the United Kingdom from 220 to 360 per cent in the same period).[19] The shadow financial institutions have, as a result of new regulation, taken the lion's share of financial derivatives trading.[20] Shadow banking also acquired, for the first time, more than half of the trade in foreign currencies, a trade that increased by 60 per cent during 2007–13.[21] The financial crisis of 2007–08 was largely a crisis of the shadow banking system. However, the problem of shadow banking has so far not been addressed.

The system of tax havens is intimately linked to New York and London and constitutes a potential source of instability for the global financial sector. For example, most hedge funds are managed from the United Kingdom and the United States but based in tax havens (see Chapter 6). Many look at the global financial system as an extension of national jurisdictions but, due to decades of liberalization, a truly global system has emerged with London and New York at its center, surrounded by a web of tax havens.[22] The core of the global financial system is rotten and constitutes a major destabilizing force for the global economy.

The abuse has not stopped. On the contrary, fraud seems to have spread. After the onset of the financial crisis, revelations have included the manipulation of Libor rates, trade in foreign currencies and prices of a large number of commodities by a small group of financial actors, mainly banks.[23] Even after these revelations of fraud, the authorities did not organize oversight for the trade in foreign currencies and the Libor rate that is organized by the market participants, themselves.

Throughout the North Atlantic region, bankers are refusing to admit bankruptcy – and they are not forced to admit it. They are still far too reliant on debt to fund their activities. Their objective is to maintain the face value of their credit book and pretend their asset base is much larger than it is in reality. Finance-led expansion has become the main goal of economic policy across the North Atlantic.

In the United States the banks succeeded better at deleveraging than did banks in the EU – partly due to the aggressive policy of the Fed to buy up, on a massive scale, toxic assets. Also, in the United States the government put growth above cutting government deficits and was less obsessed with austerity than most EU governments. This had a positive impact on banks. Also, compared to the EU, US banks were under greater pressure from the Fed to deleverage. The Fed pumped, through its program of quantitative easing, an enormous amount of liquidity into the banking system. The Fed's assets increased by 374 per cent during 2007–14; those of the Bank of England by 405 per cent; and of the ECB only by 88 per cent.[24] If taking total banking assets as a multiple to equity, in Western Europe it declined from 30 in 2008 to 24 in 2011, in the United States from 25 to 16, while the global average was from 21 to 17 (McKinsey, 2012b). However, data about leverage should be interpreted with great caution, because the banks themselves interpret the riskiness of their assets. For example, JP Morgan states its capital to have been 9.5 per cent of risk-weighted (not total) assets at the end of 2013. According to Simon Johnson, '[I]f we adjust the bank's balance sheet to allow for a more accurate measure of its derivative assets (and liabilities), using the Hoenig measure and data for the second quarter of 2012, its equity is only 3.12 per cent of adjusted asset value'.[25] Banks are reporting capital ratios that may be 40 per cent adrift from each other, despite identical capital levels and underlying risks, according to a study by the Basel Committee on Banking Supervision.[26] US and UK regulators have prioritized a focus on so-called leverage ratios that measure equity capital as a proportion of overall assets, regardless of risk.[27]

Financial intermediaries other than banks play a much bigger role in the United States and pose a bigger risk there compared to Europe.[28] But, in the North Atlantic region, risky activities have shifted to the shadow banking sector, because of regulation that is more lax. Since 2008, the role of asset-backed securities diminished, as did as the complex financial products built upon them. Also, money-market fund assets and the repo market have fallen substantially across the North Atlantic region (McKinsey, 2015). Since 2008, long and complex chains of credit securitization have declined. However, financial derivatives still constitute a huge problem, and trading in these products has shifted to places with less regulation.

Around the North Atlantic, shareholders have thrived since 2008. Globally, in 2009 $636 billion was paid out as dividends; in 2014 $1.17 trillion. The share of the United States and Europe in total global dividend payout increased from 67 per cent in 2009 to 74 per cent during the first quarter of 2015; the share of Japan decreased from 5 to 3.5 per cent (Henderson Global Investors).

The cases of the Nordic countries and Canada

Several countries in the North Atlantic have departed from the general trends as described above.

Canada, Sweden and Finland all withstood the financial crisis of 2008 well. During 2008–10 these countries performed better than the OECD average in terms of GDP growth while, since 2008, they have performed much better in terms of unemployment, inequality and disposable household income. This is in large part related to the fact that these countries faced financial crises during the early 1990s, and in the aftermath of these crises they made sure their financial systems were properly regulated. Sweden even nationalized some banks and re-privatized them shortly afterwards. These three countries did not need to bail out troubled banks in 2008,[29] and they were not faced with real-estate bubbles. Government debt in the three countries is relatively low.

Iceland stands apart due to its extraordinary financial crisis. Until 2001 the banking sector in Iceland was state-owned. Since privatization (2001) the banks grew explosively, and for the 320,000 inhabitants cheap credit was very easy to obtain. Assets of banks amounted in 2008 to ten times Iceland's GDP. Lending to Icelandic households in foreign currencies became common. Fraudulent construction projects were widespread.

A crucial factor in the explosion of Icelandic banking was the willingness of foreign creditors to lend to Icelandic banks. German banks put $21 billion in Icelandic banks, and British banks more than $30 billion.[30] Icelandic banks made loans to companies in which bank directors had interests, and without collateral. Bankers with scarcely any background in banking (some had been fisherman) succeeded in becoming extremely rich. Yet, Moody's gave Iceland's banks the highest rating, up until the crash of 2008.

Against the advice of the IMF, Iceland went bankrupt in October 2008, closed the banks and froze all capital movement across the borders. In a referendum, Icelanders refused, by 93 per cent and against the advice of IMF, to make the private debts of banks public. Iceland decided to increase social spending from 21 to 25 per cent of GDP.[31] The banks defaulted on $85 billion. The IMF agreed to a bailout with a package of $4.6 billion. Instead of a general write-down of private debt to speed up recovery, the IMF insisted on indexation of loans and a lengthy case-by-case debt-relief program for distressed households and businesses.

The Icelandic króna lost 58 per cent by end 2008, inflation spiked to 19 per cent in January 2009 and GDP contracted by 6.6 per cent in 2009.[32] According to the OECD, Iceland spent 20–25 per cent of GDP on rescuing the three largest banks (through loss of value of collateral that the central bank took from the banks), which is more than any EU country, apart from Ireland.[33]

Since then, bankers and politicians involved in fraud and misconduct have been prosecuted. Unlike other countries, Iceland introduced household-debt forgiveness to the amount of 13 per cent of GDP.[34]

Since Iceland declared bankruptcy, the economy recovered fast. Growth resumed and attained 2.7 per cent in 2011. Unemployment is just below 5 per cent (2014). Only in 2015 did Iceland lift capital controls.

Common trends in developed capitalism since 2008

Despite some anomalies, there are common trends across developed capitalism.

Since 2008 economic stagnation seems to have become the new normal in the developed capitalist world. Lawrence Summers called it 'secular stagnation'. It is a slump that is not the product of the business cycle, but a more or less permanent condition.[35] It is conspicuous that large amounts of surplus capital cannot find profitable investment in the real economy. Surplus capacity is common. Stagnation is also associated with high levels of indebtedness. An IMF study estimated that overall debt levels that are higher than 80–100 per cent of GDP inhibit growth and increase volatility; this is a debt level already surpassed by the overwhelming majority of developed capitalist countries (Arcand et al., 2012).

The major problem across the developed world is lack of demand, not lack of liquidity.[36] The pre-2008 trends were intensified after 2008. Profits as a share of GDP increased, while wages as a share of GDP decreased. This is atypical for a recession. For example, during the 1930s, profits went down.

Lack of demand is related to the weakness of organized labor all across developed capitalism.[37] A massive attack on labor started that not only meant more unemployment and lower salaries but also the deterioration of working conditions. Under the pretext of flexible labor markets all kinds of protections for labor have been abolished. Wealth inequality increased in most advanced capitalist countries.[38] Piketty (2014) has shown that wealth inequality has led to slowing, innovation-averse, rentier economies.

In most developed countries there is a disconnect between the real economy and the stock market. There is also a disconnect between profits and investments. This is partly related to globalization (leakage abroad), partly to monopoly tendencies, partly to financialization.[39] All over developed capitalism, profit margins of enterprises have gone up, as have salaries of management and bonuses of bankers, but living standards of the population have stagnated or gone down.

The power of banks – who increased their assets from around 100 per cent of GDP in advanced economies in 1980 to around 200 per cent in 2008 – has not been restrained.[40] Since 2008, the big banks have grown larger in all advanced capitalist countries. Instead of supporting the real economy, they and other financial institutions mainly did business with each other. Across developed capitalism there is too much finance by finance for finance. All across the developed capitalist world too-big-to-fail banks received huge implicit subsidies.[41]

An important trend is that banks are lending less to business enterprises that are producing tangible goods. Those enterprises with access to credit do not really need it, while those who cannot access credit, like most small and medium-sized enterprises, are really in need. Big enterprises are usually hoarding liquidity. Deloitte estimated that enterprises of the S&P global 1,200 nonfinancial corporations were sitting, in 2013, on $3.5 trillion in cash reserves.[42] Since 2010, corporate profits as a percentage of GDP are across the developed capitalist world at historic high levels and, since 2013, even higher than pre-2008 record levels.[43]

Atypical for an economic crisis is that the stock market has developed dynamically since 2010, while the real economy stagnated.[44] In Japan the Nikei index increased by 116 per cent during July 2010–July 2015; the New York Stock Exchange index during the same period increased by 54 per cent, the German DAX index by 87 per cent and the UK FTSE index by 72 per cent (St. Louis Fed). This is related to the increase of share buybacks by enterprises that in this way can dispose of their surplus capital and is also related to the use of loans against record-low interest rates, used for share buy backs, while boosting the incomes of shareholders and management. The OECD (2015) observed that since 2009 companies committed to long-term investments are doing less well on the stock market than companies that focus on share buybacks.[45]

Around the North Atlantic and in Japan the rigging of stock markets exploded by the spread of high-frequency trading. By early 2015, 60 per cent of the turnover of US stock markets was related to high-frequency trading – in Europe, 40 per cent and in Japan, 72 per cent (2014).[46]

In most developed capitalist countries, since September 2008 the balance sheets of central banks have increased enormously. Also, across the developed capitalist world, interest rates dropped to historically low levels.[47] This easing monetary policy was the major motor behind the cautious economic recovery that does not translate into more jobs, household consumption and investment, but which has produced new bubbles. Unlike what many expected, quantitative easing did not translate into inflation. Although the supply of money increased, the velocity of money slowed down, which increased the power of banks because all the money central banks created went to banks.

Waiting for the 'big bang'

The financial systems of most of Europe and the United States looked in mid-2015 like a giant house of cards. The financial weapons of mass destruction that constitute the unregulated financial derivatives have not been dismantled.[48] The big banks are still too big to fail and too complex to manage. They still are like black boxes. Their incentive structures are geared towards taking big risks.

The financial systems in most of the North Atlantic countries are as dysfunctional as they were in 2008.[49] The IMF points out that the interconnectedness of the international financial system has been reduced. Collateral use and reuse between banks had diminished from $10 trillion at end 2007 to $5–6 trillion at end 2011.[50] Instead, banks were relying more on cheap credit from their own central banks. Although the degree of internationalization has diminished, the failure of big banks in one country in the North Atlantic can still cause a chain reaction, especially through financial derivatives, threatening the financial systems in other countries of the region. Pampering the banks with cheap money has exacerbated risk-taking. The period since 2008 has shown that big banks will again and again need bailouts. This is so not only in eurozone peripheral countries, but also in core countries such as the Netherlands and Belgium. The big US banks would be loss-making without taxpayers' subsidies. Implicit subsidies to the banking sector have even increased in a number of countries, while the concentration of banks has increased in most Western countries.[51]

According to the IMF and ECB, especially the shadow banking sector constitutes an important systemic risk. Overall assets in the global shadow banking system increased from €48.5 trillion in 2007 (just before the crisis) to €75 trillion in 2013 – the United States has 33 per cent of these assets; the United Kingdom has 12 per cent; the eurozone 34 per cent; Japan 5 per cent.[52] The interconnectedness of regulated banking and shadow banking can be compared to a nuclear power station where it is not known where and how the wiring is organized. Another systemic risk factor that has emerged recently is high-frequency trading. A stock-market crash, collapse of the junk-bond market, crisis in the insurance industry that cannot cope with ultra-low interest rates, over-leveraged hedge funds, crisis in the Chinese economy or deepening crisis in the Eurozone – each might provide the trigger for a new international financial crisis. The problem with any future financial crisis is that governments are ill-equipped to tackle it, as they are all already heavily indebted, and central banks cannot further lower interest rates.

Globally, there is a mountain of $100 trillion of debt, against $33 trillion of GDP, and the creditors are concentrated in the North Atlantic.[53] Three quarters of global financial assets are pooled in the traditional financial centers of developed capitalism.[54] Too much money is chasing too few assets, with the consequence of creating bubbles.

As the IMF argued in March 2014, Western policymakers have failed to stabilize the financial sector, which could be 'mutually destructive' due to cross-border inter-bank linkages, and could undermine efforts to prevent banks from costing taxpayers billions of dollars.[55]

The likelihood of a new banking crisis is now even higher than before the outbreak of the financial crisis in 2008. According to William White, former chief economist of the Bank of International Settlements and now head of the OECD's Economic Development and Review Committee:

> All the previous imbalances are still there. Total public and private debt levels are 30 per cent higher as share of GDP in the advanced economies than they were [in 2007], and we have added a whole new problem with bubbles in emerging markets that are ending in a boom–bust cycle.[56]

According to a JP Morgan Chase report, '[T]he current episode of excess liquidity, which began in May 2012, appears to have been the most extreme ever in terms of its magnitude'.[57] In a survey (Kinetics) of 300 financial-service professionals, 97 per cent of them do not think enough has been done to prevent a future market crash, despite many recent regulatory changes. Only 35 of them said that regulators fully understood how the crash of 2008 was allowed to happen.[58]

8
Why Did Economists and Neoliberals Get It So Wrong?

On 1 August 2007 the IMF wrote that markets have shown that they can and do self-correct: 'The financial system has shown impressive resilience, including to recent difficulties in the subprime mortgage market'.[1] The IMF, EU, OECD and major economic think tanks failed to identify bubbles in the United States and Europe. Right up to the AIG bailout and the collapse of Lehman Brothers, the IMF, the Fed and the ECB repeatedly claimed that credit default swaps were a new product that offered excellent guarantees against risks.

Also, mainstream media ignored important developments in financial markets, such as the explosion of financial services in Iceland and Ireland, the property bubbles in Spain and Ireland, the growing importance of the shadow banking system, tax havens and financial derivatives.

Some predicted the advent of the financial crisis, including Robert Shiller, Nouriel Roubini, Ann Pettifor, Dean Baker and Jochen Sanio (director of the German financial supervisor). A study by Dirk Bezemer (2009) identified 12 economists who predicted the financial crisis. What unites this group is their collective distance from mainstream neoclassical economics, that assumes that markets are self-correcting.

Neoclassical economics and its methodology

In contemporary neoclassical economic theory – that is, mainstream economic theory – the market is the central concept. The market is there defined as a place, or an institutional framework, where exchanges (transfers) between individuals and/or organizations occur. Typically these are transfers of money, goods and services. The competitive market is defined by horizontal interaction among market participants, all of whom face transparent rules and have well-defined equal rights. The paradigm of the competitive market is built around the search for competitive equilibrium. A mixture of different market structures (market, monopolistic) occurs in all countries. The essential difference lies in the proportions in which these structures are mixed.

However, unlike what neoclassical economics assumes, markets do not exist apart from the rules and institutional settings in which they operate. According to Boyer (1997, p. 70),

> it can be argued that in modern economies the co-ordination within large firms is as important as market adjustments and that quasi planned co-ordination has largely replaced market co-ordination. More generally, each form of market is completed by and embedded in a series of other co-ordination mechanisms, which are based either on obligation (and not only self-interest) and/or vertical co-ordination, alliances, hierarchies, communities, networks, or public authorities.

In neoclassical economics the economic sphere is analyzed as a system with a logic of its own, a system which is self-regulating and, therefore, autonomous with regard to other spheres of society. This has led to a neglect, or even ignoring, of the articulation of the economic system with the society in which it is inserted. This has led, according to Burlamaqui (1999, p. 6), to two 'conquests' that have consolidated the academic prestige of mainstream economics:

> The first one has been the establishment of a conceptual-theoretical framing comprised of generalizations supposedly capable of indiscriminate application (that is, in an a-temporal and away-from-history manner): a passport towards its status as a science. The second, was the possibility of assuming the economic order as an inherent property of its functional logic – the 'invisible hand of the market' operating via price system is the most synthetically metaphor of this assumption. The order is, thus, conceived as being endogenous, flows spontaneously from the maximizing behavior of the agents which detain information and select rationally. The economic system is stability-bounded and order is an endogenous and natural process; disorder is exogenous, and a result of the interference of non-economic factors into the economic logic.

It is in this context that Pareto could say that economics, as a science, would deal solely with rational behavior, while sociology would investigate irrational behavior. Economics is all about how people make choices; sociology is about how they do not have any choices to make. The 'spontaneity of the economic order' is not a characteristic of the object to be interpreted, but a methodological assumption of neoclassical economics.

The starting point of mainstream economics is the individual or business enterprise whose prime motivation is self-interest and the search for profit. This methodological individualism is characteristic of mainstream economic science. This makes it easier to ignore the central role of states in organizing markets. It also makes it easier to ignore the role of culture and institutions in economic life. As Streeck (2010, p. 9) observed, 'the progress of economics towards universalism made empirical differences between institutions disappear behind prescriptive principles of ideal institutional design. This relieved economics [of having] to learn about any foreign peculiarities'.

Mainstream economic science is the only social science that departs from axiomatic assumptions about human behavior that does not have a proper empirical foundation. It is assumed that man bases his economic behavior purely on knowledge of economic aggregates: supply and demand, prices, and so forth. Therefore, mainstream economists assume that the economy is guided by the search for gain, not the search for power. Economic science is the only social science that does not see power and conflict as critical variables for understanding human behavior. For mainstream economists the wage level is the outcome of the forces of supply and demand, not of bargaining positions that are largely determined by power.

The efficient market hypothesis, which came to the fore in the early 1970s, promoted a version of economics that eschewed reality for pure market conceptions. In this hypothesis, markets are inherently free, except in cases of state and labor interference (Foster and McChesney, 2012, p. 94). Relations between corporations are a priori competitive, and the existence of monopolies is denied. With the introduction of transaction cost theory, all developments in firm integration were interpreted as optimizing 'efficiency' (Foster and McChesney, 2012, pp. 94, 93). Power was no longer a central issue in the analysis of the global corporation.

The history of neoclassical economics is a history of problematic borrowing from the natural sciences, leading to a mathematical sophistication increasingly divorced from reality. This gave economics not only prestige but helped to prevent 'laymen' from asking questions. Especially in the study of money, complexity is used to disguise truth, or to evade truth, not to reveal it.

Neoclassical economics assumes that the individual, rather than groups or classes, is the basic unit of society, and that there is a harmony of interests among individuals, at least over the long term, a harmony that accounts for social and political stability (Gindin, 2001, p. 65). The underlying harmony in a market system is the result of what Adam Smith called 'the invisible hand'. The harmony of interest doctrine implies that if the market is left alone and 'prices are right', resources will be employed efficiently and everyone's welfare will improve. The assumption is that the state should not intervene. The invisible hand almost replaces politics because the market steers, not government. The markets subordinate politics.

In mainstream economic science, the market has become an entity loosened from its social roots, which means ignoring that the market players are social entities.[2] But in reality the market is a social relationship in which power is a crucial ingredient. Where equal rights exist, force decides, Marx noted. Markets only exist in the context of rules and rule enforcement – for example regarding property rights and trading – rules that are created by society.

Instead of 'market relations' Marx preferred the concept 'exchange', which points to a more personalized relationship in which participating actors are brought to the fore. It can be stated that exchange is always unequal, because the actors in the exchange process never have the same information and never have the same assets (power) at their disposal. Also, the elements of monopoly and oligopoly should be taken into consideration. This means that economic processes always have a political dimension. John Kenneth Galbraith made the same point when writing, 'the approved reference now is the market system' and this is a shift that 'minimizes – indeed, deletes, the role of wealth'. Instead of capital owners in control, 'we have the admirably impersonal role of market forces', he wrote. 'It would be hard to think of a change in terminology more in the interest of those to whom money accords power. They have now a functional anonymity'.[3]

The concept 'market economy' constitutes a conceptual prison and prevents us seeing that modern market economies are all mixed economies in which different allocation mechanisms are active.[4] Economic history, including the history of centrally planned economies, has shown us that when there is too much reliance on one coordination mechanism the economy becomes dysfunctional. Economic behavior should be understood in the context of institutions that have a different history in each country. It is the divorce between economic history, political economy and mainstream economics that makes mainstream economics unable to understand dynamic change in modern economies and unable to anticipate such change.[5]

For neoclassical economists, the economic system is a-historical. Mainstream economists are not studying economic history and can therefore easily omit historic experience from their models. As Schumpeter has observed, conventional economics can tell us how to manipulate the existing economic apparatus in order to increase its efficiency, but such economics cannot explain how that economic apparatus came into existence in the first place. Also, the assumption that the market strives after equilibrium ignores the volatile nature of capitalism, which regularly leads to economic crises.

For the neoclassical economist, moral issues are irrelevant in economic analysis. The economist is concerned with maximizing profits and productivity, and with issues of redistribution insofar as it affects profits and productivity. The market acquires the function of a *deus ex machina* that decides what is right and what is wrong. The Chicago school of economists spread the idea that economic methodology, considered as the analysis of self-interested behavior, ought to be applicable to every area of life. The concept of market can be easily extended into ideas, reform programs, political choices (while voting), and so forth. When so applied, it will show how our basic material interests actually govern what we do, regardless of the moralizing fig leaves we cover ourselves with. This assumption has led to the spreading of economic terminology across the social sciences, and economic terminology has become common currency in all spheres of social life.

The starting point of neoclassical economics is not economic reality but a model of economic reality in which important factors influencing this reality are treated as externalities. The assumption is that the economic system is governed by markets that by nature strive after equilibrium. A priori, the market is never wrong. On the basis of this assumption, neoclassical economics has built a theoretical framework that is now dominating economic discourse in the West. Characteristic of mainstream economics, which utilizes a supply-side approach, is treating wages as merely a cost item, ignoring that wages also create demand.

In neoclassical economics, 'good' economic policy is nonpolitical by nature. Therefore, an economy should be dis-embedded and kept far from politics. This explains the trend in advanced capitalist democracies of outsourcing economic policymaking to non-accountable bodies, such as the 'independent' central bank, the IMF, or the Commission of the EU.

In mainstream economic theory, the stock market reveals the real value of a share. Therefore, shareholders' value has become a central criterion in the assessment of firm performance. This is contrary to real-life experience, which shows regular bubbles in the stock market and high volatility in the share price of individual enterprises.

In mainstream economics, one of the main tenets is that free trade is beneficial for all concerned. In the United States this free-trade doctrine has been elevated to a state doctrine and moral principle. In the National Security Strategy of the United States (September 2002) it is written:

> The concept of "free trade" arose as a moral principle even before it became a pillar of economics. If you can make something that others value, you should be able to sell it to them. If others make something that you value, you should be able to buy it. This is real freedom, the freedom of a person – or a nation – to make a living.

However, in practice free trade is almost non-existent. In many cases there is oligopolistic competition. Free trade is far from a natural state of affairs and has to be enforced and administered. How complicated this is shows the rule-setting of the World Trade Organization. Free-trade arrangements often involve profound changes in the economies of countries.

Finance is not neutral

Unlike the common view and that of mainstream economics, in which money is like any other commodity and in limited supply, money is created by banks to the extent that business enterprises, households and governments are willing to borrow. Instead of government borrowing crowding out private investors, in principle government can borrow as much as it wants from central banks (except in the eurozone).[6] Therefore, government spending holds the key in de-leveraging the private economy and restarting the engine of growth. But it seems that the ideology of austerity, based on mainstream economics, is preventing this while keeping advanced capitalist economies in a stranglehold, keeping them in a vicious downward cycle of economic stagnation, high unemployment and crumbling welfare states. Another drag on growth is lack of demand in the private sector, demand that could be stimulated by increasing wages. The problem is that an oligarchy that is dominating the developed capitalist countries, and which is closely associated with financial capital, is resisting necessary reform.

Apart from specific interest groups, widely held views about the function of finance in modern economies block necessary reforms.

Keynes saw financial markets as intrinsically unstable and tending to generate boom-and-bust cycles, but in neoclassical theory the financial sector does not have an autonomous dynamic and does not have a distinct influence upon economic development.[7] Causes of economic growth or recession lie outside the financial sector. Since the 1970s the belief has spread that financial markets price risk correctly on average (efficient market hypothesis). This postulate provided thereafter the intellectual argument for extensive deregulation of banking.

In mainstream economics, money and finance are like oil in the machinery of capitalism. Therefore, in standard economic textbooks there is no separate chapter on the role of the financial sector in the economy, despite the fact that 97 per cent of money creation nowadays is by private banks. This issue is a black hole in macroeconomic neoclassical theory. On this rests the belief that the 'price' of money – the rate of interest – is not constructed socially, but is a result of market forces. But money is not like oil. Money can be created from thin air.

There is in mainstream economics the discipline of financial economics, but models of the financial system have been constructed without taking into account the interactions with the macroeconomic environment. Similarly, macroeconomics constructed an intellectual framework for analyzing economies without money and financial institutions (Martin, 2013, p. 227). Therefore, financial economics became a mirror image of macroeconomics, while the fixation was on price formation.

One of the great victories of finance during the last decades has been the privatization of money creation by private banks and shadow banks. Money was, in Keynesian times, subordinated to politics while, the central bank was in the service of the real economy and often not independent from government. But since the 1970s, we have seen money's great escape from the rules of the Keynesian consensus that were instituted in the Bretton Woods system.

According to Adair Turner, the former chairman of the UK Financial Services Authority, 'The financial crisis of 2007/08 occurred because we failed to constrain the private financial system's creation of private credit and money'.[8] Most bank lending today does not create value but instead volatility and debt burdens. Research shows that countries with larger financial sectors have less investment and innovation, more instability and lower growth rates.[9]

The financial sector does not want 'free markets', but wants to place control in the hands of finance. According to Hudson, the financial sector

> diverts revenue away from the circular flow between production and consumption. Income to spend to pay creditors is not spent on goods and services, it is re-invested in new loans, or on stocks and bonds. Financial engineering is expected to usher in a postindustrial society that makes money from money (or rather, via credit) via rising asset prices for real estate, stocks and bonds.[10]

A theory of rent-seeking is absent in neoclassical economics. Rent-seeking can be considered an activity of generating and allocating transfers between economic actors. Resources that would be otherwise productive are diverted to generate transfers. Rent-seeking requires complexity and therefore highly skilled labor, especially in the accountancy, legal and banking professions.

The crucial issue is that finance wants rent from assets and is solely interested in taking as large a share of the country's wealth as possible, not in increasing that wealth. The emergence of finance as a dominant force has made it predatory. Banks became masters, not servants, of industry.

Financialization, with the indebting of all major economic actors and sectors, and with the explosion of financial assets relative to the real economy, has meant that the role of finance in the economy has become even more prominent.

Traditionally, finance has had less loyalty towards the nation-state and has always been more footloose than has industrial capital, especially since the onset of contemporary corporate globalization. Industrial capital is usually patient, whereas financial capital tends to be more volatile. But the distinction between financial and industrial capital has become blurred due to the financialization of industrial enterprises (see Chapter 1).

Pension funds, investment funds and insurance companies are also part of the financial sector. They are interested in maximizing returns on investment and, as many among them have been freed over the past three decades from all kind of constraints and can move more freely across borders, they join other financial-sector actors in furthering short-termism. The financial industry was the major mover behind the shareholders' revolutions that affected the whole economy and led to the financialization of business enterprises producing real goods. It shows that finance is far from a neutral force.

The public good and exclusive property rights

In mainstream economics, the notion of the public interest is relegated to the background. Among mainstream economists (and neoliberals) it became commonplace to view 'the public' and 'general welfare' as arbitrary and meaningless concepts. According to Buchanan, a Nobel Prize winner (1986), 'social groups have no "'organic existence"' apart from that of their individual parts' (Haring and Douglas, 2012, p. 23). Buchanan said 'public interest is disguised interest of governing bureaucrats' (ibid.). According to Douglas and Haring (2012, p. 25) 'The anti-organizational attitude of many mainstream economists owes a lot to the extremely influential public choice and rational choice movement and their generous supporters'.

Mainstream economics denies the fact that government is behind the boldest risks and biggest breakthroughs in innovation, including breakthroughs in information society. The more competitive and finance-driven the economy, the less the private sector will be willing to bear the risks for investments in innovation (see Mazzucato, 2013).

The market fundamentalism of mainstream economics informed neoliberal ideology, which wants to marketize the whole of society and put private property, and herewith the pursuit of profit, at the core of society. Neoliberalism is a private property liberalism that places the sanctity of private property above anything else. With the emergence of neoliberal thought, public discourse about the tension between private gain and the public good receded, whilst the belief that competition is always beneficial, gained ground. The idea that there are commons – spheres of life that should not be commercialized – gets less support. The idea that 'natural monopolies', like electricity grids and water distribution, should be kept public, recedes. The same applies to public broadcasting, public education and public health.

In the context of the Keynesian welfare state, there was the consensus that the state should protect society against market forces and protect the commons, by for example imposing limits on the use of property. The neoliberal concept of property is derived from Locke, who proposed exclusive control rights by owners. According to Locke, property refers to the full and absolute discretionary power of an 'owner' over an external 'object'. Achterhuis (1988) argues that Locke can be considered as the theoretician of expropriation, because the boundless appropriation of property which he justifies in his theory implies the expropriation of many. Locke's doctrine is rooted in the belief in sharp demarcation between 'ownership' and 'power' and, by analogy, between 'economy' and 'polity'. Instead of Hobbes's almighty sovereign state, for Locke the capitalist appears whose power is not constrained by any law. However, Locke assumes a social contract that is binding for everyone. Neoliberals nowadays downplay the relevance of a social contract.

The Lockean concept of ownership is nowadays extended to the international sphere, with the US-led institutions of global economic governance spreading the principle. For example, it is embodied in Trade Related Intellectual Property rights, which protect patent holders while patents can be extended to almost all spheres of life, including life itself. Traditional medical knowledge is expropriated through patenting by pharmaceutical companies.

The institutions of global economic governance promote the Anglo-Saxon concept of property rights. For example, the business enterprise is not considered to be an association of people producing goods – or a bundle of property rights in which different stakeholders, including the employees, have a say – but as a commodity that can be sold or bought on the market place. Enterprises increasingly function by extracting wealth for the shareholders and for executive management. The waves of mergers and acquisitions that struck especially the Anglo-Saxon world with its shareholder capitalism, devalued many companies and led to the bankruptcy of firms that would have been otherwise profitable.

An alternative concept of ownership demarcates relational rights instead of absolute ones. In this conception, ownership does not so much concern things or objects as relations. We can refer to many legal traditions in which workers possess control and co-determination rights as workers and not as investors. According to 'legal pluralism', property consists of a 'bundle' of rights, which accrue conditionally to different agents. In this conception of property, the difference between private and public property becomes less pronounced.

The argument can be defended that a lack of regulations with regard to the use of property leads economic actors to cheat. The massive move towards deregulation in developed capitalism has meant a shift from productive towards rent-seeking activities and a spread of fraudulent behavior.

Why neoliberalism is so attractive for elites

Although neoliberalism borrows a lot from neoclassical economics, it is different. For most of its history neoclassical economics was not neoliberal, and many adhered to laissez faire. Also, according to neoliberals, humans are more rationalizing than rational (Mirovski, 2014). Unlike neoclassical economy, neoliberalism provides both a theory and a project for the transformation of society. Society should be subordinated to the market, while the state should be activist in protecting property rights. Neoliberals do not recognize market failures, and markets can always provide solutions for problems caused by markets in the first place (Mirovski, 2014).

According to Foster, neoliberalism gives priority to capital as money rather than capital as productive assets. It allows capital to regain mobility, dissolving the spatial and institutional rigidities in which it had become encased (Foster, 2002, p. 3). In this context neoliberals promote negative freedoms that ensure the sanctity of property, also across borders.

Neoliberal ideology wants democracy replaced by market democracy in which politics has been made redundant by the automatic pilot of the market that steers society while leaving the administration of society to government (minimal government). It is an almost-invisible ideology because it relegates political decisions to 'the market'.

For neoliberals the market should be the final arbiter in economic policy. If the market says a manager should earn 100 times more than his workers, we should accept this. The free market is conceived of as a natural state of affairs to which developed Western nations are converging. The market metaphor is nowadays used in almost all spheres of human activity. Alan Greenspan, former chairman of the Federal Reserve wrote that 'markets are an expression of the deepest truths about human nature and… …as a result, they will ultimately be correct'.[11]

Polanyi (1957, p. 257–58), on the other hand, saw market liberalism as utopian.

> The radical illusion was fostered that there is nothing in human society that is not derived from the volition of individuals and that could not, therefore, be removed again by their volition. Vision was limited by the market which "fragmented" life into the producer's sector that ended when his product reached the market, and the sector of the consumer for which all goods sprang from the market. The one derived his income 'freely' from the market, the other spent it 'freely' there. Society as a whole remained invisible. The power of the state was of no account, since the less its power, the smoother the market mechanism would function. Neither voters, nor owners, neither producers, nor consumers could be held responsible for such

> brutal restrictions of freedom as were involved in the occurrence of unemployment and destitution.

Apart from protecting private property and securing obedience to the law, the state has, in neoliberalism, the function of promoting competitiveness of the national economy. This occurs in an arena where all nations compete for markets. Gaining shares in world markets enables other policy options to be realized. To this end labor markets have to be made more flexible, salaries and social programs cut while incentives should be given to enterprises to stay in or enter the country. The quest for competitiveness is a quest for survival. The ideology of competitiveness subordinates all other policy goals.

Neoliberal government helps to reshape the world in its own image. If all cooperative ties in society and economy are undermined and competition introduced in all spheres of the economy, the competitiveness agenda imposes itself in all rigor upon all actors in society. *Homo Economicus* realizes itself in this world at the expense of other humans. If government imposes that everything will be for sale, the market economy seems to be the natural state of affairs. In this way neoliberalism becomes a self-fulfilling prophecy.

Central to neoliberal ideology is the autonomy of the individual. This ideology cherishes the individual while ignoring the social nature of human beings. The 'I' is perceived without the 'we' component. It emphasizes individual responsibility and the rights of the individual. Neoliberal ideology is an ideology of rights, which is of legal rights. This individualism has its counterpart in the methodological individualism of mainstream economic science. Neoliberalism promotes individualistic attitudes that rupture the bonds of solidarity within society. Instead of the makeability of society it promotes the idea of the makeability of the individual.

Neoliberalism legitimizes greed and makes the issues of solidarity and social justice irrelevant. Allegedly, state benefits create a culture of dependence. In the view of neoliberals, redistributing the national wealth through the state can only lead to market failures and take economic incentives away. Therefore, neoliberals propose individual pension schemes above state pensions that are financed as transfer payments, which means the present working generations paying for the present pensioners.

One of the attractive sides of neoliberalism, at least for ruling elites, is the focus on process rather than outcome in the political process. The focus on process is of course very much biased towards the interests of the wealthy. For example, the right of employees to act collectively (which allegedly undermines the free working of markets) is usually severely constrained in liberal market economies, whilst the right of the employer to act as he pleases is not. The role of government as just the guardian of the rules of the game keeps politics out of politics and makes governing a much easier job.

Neoliberalism has become very attractive for the political class because it legitimizes the nonrestricted accumulation of wealth while providing a simple key to complex problems. The fact that neoliberal beliefs are at odds with empirical facts, as especially the Great Financial Crisis has shown, is another matter.

Neoliberalism undermines Western civilization

The introduction of commercial society in the West, and the commercialization of all spheres of life leads not only to 'inefficiencies' and the furthering of rent-seeking and free-riding, but also to the undermining of Western civilization in general. In neoliberal thought, society is reduced to economy, economy reduced to market economy and market economy to financial markets. Instead of economy being embedded in social relations, in capitalism social relations are becoming embedded in the economic system (Polanyi, 1957, p. 57).

Commercial society developed in the womb of a society rooted in many different legacies but, gradually, the former is superseding other aspects of civilization. The most basic institutions are transforming into contractual arrangements. This process was interrupted during the period of Keynesian welfare capitalism (the first three postwar decades) but strengthened during the last four decades, when there was an erosion of the variety of national capitalism during a process of accelerated marketization (see Chapter 3).

As Streeck (2014B) has noted,

> capitalism as we know it has benefited greatly from the rise of counter-movements against the rule of profit and of the market. Socialism and trade unionism, by putting a brake on commodification, prevented capitalism from destroying its non-capitalist foundations-trust, good faith, altruism, solidarity within families and communities, and the like.

Streek argues that the present lack of counter-movements actually contributes to the demise of capitalism.

Neoliberals see, as the driving force of human behavior, a self-interest that is beneficial for society as a whole. As a result of neoliberal policies, the manifold ties that keep society together and protect it against wild capitalism are gradually unraveled.

Neoliberals see nature as something external to humankind, and nature is there to be consumed by man. There is the belief that, ultimately, technology (in conjunction with the market) will provide the solution for environmental degradation. This is exemplified in the low priority that neoliberal governments across the world attach to environmental policy.

What is new in neoliberalism is its encompassing claims for the transformation of society while ignoring traditions in liberal thought that counterbalanced the market with a social contract. The basic assumptions of neoliberalism have no empirical foundations. These methodological flaws explain why neoliberals fail to spot the counter-forces that are evoked by the fallacies of neoliberalism. As Karl Polanyi (1957, p. 145) has noted about the late 19th century:

> The great variety of forms in which the 'collectivist' counter movement appeared was not due to any preference for socialism or nationalism on the part of concerned interests, but exclusively to the broader range of the vital social interests affected by the expanding market mechanism.

9
Reclaiming Sovereignty

This chapter is about how the Great Financial Crisis brought about a crisis of corporate and financial globalization. Firstly, the consequences of the financial crisis for the global economy (financial wars, new asset bubbles, food insecurity) are analyzed. Secondly, the decline of the West, especially the United States is discussed. Thirdly, we examine the protective measures against external shocks taken across the world (formation of regional blocs, re-regulation of capital accounts, limiting US power). Fourthly, the modalities of de-globalization and the need to restore (democratic and national) sovereignty are discussed.

Quantitative easing and global financial volatility

In previous chapters it has been shown that the freedom of capital to move across borders is associated with increased instability. First, financial crises occurred in Latin America, then subsequently in East Asia (1997) and Russia (1998). After the periphery, the core of global capitalism was hit by major financial crises. The spillover of the Great Financial Crisis outside the West was limited because of the experience of financial crises in an earlier phase, many countries were better prepared for financial disturbances and often had built up substantial foreign exchange reserves.

Worldwide, the financial crisis resulted in more, not less, indebtedness. Global debt markets increased from 2007 to mid-2013 from $70 trillion to about $100 trillion (BIS). Credit intermediation shifted globally from the (better-regulated) banks towards the (under-regulated) asset management industry that has $76 trillion under management – which equals the global GDP (IMF, 2015, p. 28). Monetary policies in the United States, Europe and Japan caused an enormous overhang in liquidity. As the *Financial Times* (9 February 2013) reported, 'a wall of money is flowing into financial assets'. Among other things, it contributed to bubbles on the stock market. Moreover, there has been an influx of cheap money and hot money in the South in order to buy up real estate, privatized infrastructure, enterprises and land. External corporate debt in emerging economies increased from $0.75 trillion in 2008 to $2 trillion in 2014.[1] Creating easy and cheap money in OECD countries can be considered as a competition in credit creation, with the effect of obtaining, on the cheap, resources in the global South.

A larger part of cross- border capital flows started to move to the developing world. It was only 5 per cent of global capital flows in 2000, but 32 per cent in 2012. It was mainly hot money, which is short-term and footloose money that can be easily repatriated. In late 2014 there were about $2.6 trillion in outstanding debt securities from emerging market borrowers on top of $3.1 trillion in hard currency loans (BIS data). A significant part is serviced in domestic currencies. This means that, in case of currency volatility, repayment is in danger and can cause a chain reaction in the international system.

The capital outflow from developing countries grew even more rapidly and attained $1.8 trillion in 2012 (McKinsey, 2013, p. 35); it was $295 billion in 2000, not taking into account illegal capital flows.

In 2013 the capital flows towards many developing countries dried up as a result of scaling back the buying-up of troubled assets by the US Fed. This put the currencies of many emerging economies under pressure, adding to economic problems. The volatility of capital flows between the North and the South created much havoc in the Global South.

Despite this recurring redirection of global capital flows, we see a compartmentalization of global finance in the sense that it relies more heavily on domestic capital formation (McKinsey, 2013a, p. 42).

Land-grab and speculation in commodities

Increased capital flows to the Global South in many ways affected the people living there.

Under pressure of the World Bank and IMF, land markets opened up to foreigners, and huge stretches of arable land in the Global South were bought up by private investors, mainly from northern developed countries. This process took off during the Great Financial Crisis. At the time, exploding food prices promised high rewards for investing in land. In 2009 alone, more than 56 million hectare of land were acquired by foreign investors, while during 1961–2007 it had been on average

4 million hectare annually.[2] Oxfam estimates that, during 2002–12, land equivalent to eight times the size of Great Britain was sold or leased to foreigners worldwide.[3]

In developing countries, ownership rights on land are often not formalized. For example, all land in Cambodia and Ethiopia was nationalized. Because the state is the owner of all land, it can sell it, even if peasants have lived on their plots for many generations. This is what actually happened in these and many other countries.

Quantitative easing pursued by central banks in the developed West after the financial crisis poured enormous amounts of liquidity into the financial sector. Because banks have become major players in the commodity markets by trading in financial instruments toed to these commodities, this has led to great volatility in global commodity markets, irrespective of supply and demand in these markets.

Quantitative easing immediately affected the prices of commodities. Over the 16 months that QE 1 was in effect in the United States, to March 2010, the CBR commodity price index rose 36 percent, while food prices rose 20 percent and oil prices 59 percent. During QE 2, in eight months to June 2011, the CRB rose another 10 percent, food prices went up another 10 percent and oil prices went up another 30 percent.[4]

Most oil is currently traded using derivative financial instruments that are not based on the physical exchange of crude between seller and buyer. Oil prices began soaring in 2005 when US pension funds were permitted to invest in oil futures.[5] In effect, oil has become a speculative commodity whereby the price is determined according to how investors anticipate its value will increase or decrease by a given point in the future.

Since 2009 when speculation in commodities attained its height, and prices of most commodities started to stabilize at a high level, the turnover of banks in commodity markets declined.

Food prices have risen very sharply since 2008 but remained flat after late 2011, staying on a level that is much higher than during the mid-2000's.[6] After 2008, rising food prices pushed 115 million people towards hunger, bringing the total to 925 million.[7]

According to the World Bank (2009), Arab countries import more than half their food, which means they depend on other countries for their food security. The 'Arab Spring' (2011) can be explained, to a certain degree, by exploding food prices.

The basis of speculation in food was laid in 1991, when Goldman Sachs launched the idea of the Goldman Sachs Commodity Index Fund. Subsequently, in 2000, all restrictions for speculation in food were removed. According to the UN's Food and Agriculture Organization (FAO), speculators have magnified volatility in global food markets. Investments in food commodity markets on behalf of investment banks and hedge funds increased from $65 billion in 2007 to $126 billion in 2011.[8]

As described in Chapter 6, the IMF and World Bank pushed developing countries to neglect traditional agriculture and to focus on production of agricultural commodities for export, with the result that many developing countries became more dependent on food imports. The argument was that prices of basic food products tend to decline because of increasing supply.

As has been shown above, the economic policies of major developed capitalist countries had a major and disruptive influence upon the Global South, especially after 2008. On the other hand, the worldwide turmoil caused by the Great Financial Crisis accelerated some underlying trends in the global economy that negatively affected the United States and its allies.

The end of US hegemony?

The year 2008 was a turning point in the global configuration of power. Not only the year of the Great Financial Crisis, but 2008 was also the year that Russia recognized the independence of South Ossetia, part of Georgia, despite the US warning not to do so. In 2008 it also became clear that the military campaigns in Iraq and Afghanistan had failed. The overextension of the United States was exposed. Since 2008 the advance of China has accelerated, together with the other BRICS nations that saw far-higher growth rates than did the United States and other developed capitalist countries. By 2008 the influence of the IMF and World Bank in the Global South was minimal. The unipolar moment passed. It also became clear that the United States was less willing to provide leadership in creating global economic stability. This does not mean that the United States stopped being a hegemonic force. The strategic importance of US capital in the global economy is much more important than is the declining share of the US economy in the global economy; this is so because US corporations account for a much larger share of global trade and investment. Also, for the time being there is no alternative to US leadership in the global economy.

But the Great Financial Crisis clearly revealed the fault lines in the globalized economy.

The extremely low interest rates policy of the Fed and quantitative easing had the consequence, among other things, of weakening the dollar. During 2010–12, the dollar diminished around 20 per cent in value against major currencies. As a result the share of dollars in total global currency reserves declined from 64.1 per cent in 2007 to 61 per cent in 2013 (to increase again to 62.9 per cent in 2014).

Foreign holdings of US government securities increased from $0.5 trillion in 1995 to $6.2 trillion in early 2015, of which China held $1.26 trillion and Japan $1.23 trillion (US Treasury data). Emerging countries such as China fueled American growth, supplying cheap goods and cheap funding – recycling export proceeds into US bonds – to finance the purchase of these goods. Asked whether America has hanged itself with an Asian rope, a Chinese official told a reporter: 'No. It drowned itself in Asian liquidity[;] the US is now deploying its Financial Weapons of Mass Destruction – "financial extortion", "monetization" and "devaluation" – to finance its requirements'.[9] In a form of extortion, investors such as China must continue to purchase US dollars and bonds to avoid a precipitous drop in the value of its existing investments. Major investors in US government bonds now find themselves in the position John Maynard Keynes once identified: 'Owe your banker 1,000 pounds and you are at his mercy; owe him 1 million pounds and the position is reversed'. Nevertheless, China managed to decrease the share of dollars in cross-border claims from 54 per cent end 2008 to 39 per cent end 2014. This share also declined for Russia, Mexico and Turkey (BIS, 8 June 2015). In order to diminish reliance on the dollar, China started to buy large quantities of gold (500 tons in 2011 and even more in 2012). Also, the gold reserves of Russia and India went up sharply.

While signing a new series of long-term delivery contracts with China, the Saudis stabilized their own foreign exchange reserves by switching to the yuan.[10] Iran has been trying to trade oil in non-US dollar currencies since 2008, when it opened its Oil Bourse. Iraq did this in 2000. The result was US-led sanctions in the first instance and invasion in the second.[11]

Often, central banks keep part of their foreign currency reserves abroad, mainly in London or New York. For example, China's foreign currency reserves, equaling 40 per cent of Chinese GDP are held abroad. The *Financial Times* suggested that the United States could sequester a good part of China's liquid foreign assets in case of conflict (4 December 2013).

Although dollars can no longer be exchanged in gold, the latter could trigger big problems for the dollar. The Fed has sold, since late 2011, massive quantities of gold in order to keep the gold price down, and thereby protect the dollar. The price of gold reached an all-time height of $1,900 in September 2011 and since then has declined to $1,094 in

July 2015, despite a massive increase in demand from East Asia.[12] The US Fed stores a lot of gold on behalf of foreigners, including foreign states. Just as a bank lends more than its combined customer's' deposits, the Fed is unable to honor its obligations if all claimants of gold would ask for the physical delivery of that gold. Venezuela (2011) had big problems when it asked for its gold stored at the Fed. In 2012 Germany asked for the delivery of 300 out of 1,500 tons of its gold stored at the Fed, the Fed negotiated a seven-year term for the delivery (2014–21), most probably because the Fed's gold holdings are depleted.[13] Once a gold run on the Fed takes place, not only is the credibility of the Fed threatened but so is that of the United States, potentially undermining the role of the dollar as the world's reserve currency.

All this shows the fragile foundations of the dollar's hegemony.

The US trade balance (goods and services) has not improved since the onset of the financial crisis.[14] While the US deficit in trade with China was $250 billion in 2009, it increased to $318 billion in 2013.[15] The United States has continued to import a large part of the world's savings.

According to Gordon Brown:

> For 150 years, until 2010, the West (America and Europe) was responsible for the majority of global output, manufacturing, trade, investment, and consumption. Now we are in a transitional era, with the rest of the world out-producing, out-manufacturing, out-trading, and out-investing Europe and America – but not yet out-consuming them'.…'This imbalance means that producers of most goods and services are outside the West, but rely on Western consumers to absorb their output. Until the transition is complete, we depend on each other: no one can succeed alone. But, in the absence of global coordination, the world is stuck in a rut, acting out its own global version of the "prisoner's dilemma" – a universe in which no major economy can succeed on its own, yet none trusts any other enough to attempt cooperation and coordination.[16]

Large imbalances between different countries do matter.

The US deficit and the associated large inward capital flows contributed to the 2008 financial crisis. Since then, government interventions such as the imposition of capital controls or foreign exchange market intervention have become more common. China could withstand the crisis of 2008 by a large fiscal stimulus and large investments in infrastructure, but also by keeping tight control on capital flows, allowing in only foreign direct investment, not portfolio investments. Nowadays, the bulk of Chinese investments is financed by own savings.

Although since the 1950s US hegemony in terms of share of world trade, industrial production and patents has been gradually eroding – a process that has been accelerating since the early 2000s – US hegemony in military and political terms is still overwhelming. Despite the increasing economic weight of the EU, the EU is more slavishly following the United States in foreign policy. Sometimes the US treasury secretary joins the EU ministers of finance when the latter meet. The alliance with the United States (NATO) in which the United States has a leading role, is even enshrined in the EU basic treaty, although not all EU members are NATO members. The US-led NATO is expanding in Europe and expanding its field of operations out of the region.[17] The revelations of Snowden and WikiLeaks revealed the hub and spokes network that links the intelligence services of the larger part of the developed capitalist world to that of the United States.

The United States is busy organizing free-trade agreements with developing countries, offering extremely favorable conditions for corporations. As US trade representative M. Froman noted, the '"economic clout" produced by trade is not merely a means of financing "military prowess,"' but is a '"principal means by which countries measure and exercise power'.[18] In the new US trade strategy countries are offered free access to the US market if they submit to US demands in the framework of comprehensive trade agreements. The US strategy is to create a web of so-called free trade agreements with the US at its center, thereby strengthening US economic hegemony.

For example, there is the Trans-Pacific Partnership agreement, between the United States and a range of Asian Pacific nations, negotiated in secret. The proposed agreement aims to make signatory governments accountable to foreign corporations for costs imposed by national laws and regulations, including health, safety and environmental regulations, mandating that corporations receive compensation taken directly from domestic taxpayers and public funds. Signatory countries are submitted to the jurisdiction of investor–state tribunals. Under the agreement, nations would not have the ability to independently pursue monetary policy and implement capital controls, and they must permit the free flow of financial derivatives.

The Trans-Atlantic Trade and Investment Partnership (TTIP), involving nations around the North Atlantic, also stands above national legislation and can only be changed with unanimous consent of signatories. The investor–state tribunal sessions are secret. According to the US Chamber of Commerce and Business Europe, the partnership will have a 'proactive requirement' that governments change their laws. The partnership should 'put stakeholders at the table with regulators to essentially co-write regulation'. Stakeholder means in practice 'corporation'.[19]

Free-trade agreements create regulatory environments that are much more favorable for corporations than they ever could attain through the domestic political process. They often create ''a privatized justice for global corporations', as the Democracy Centre formulated it.[20]

The North American Free Trade Agreement (NAFTA), signed 1994, is another example of a free-trade agreement that goes much further than that of the WTO. The agreement tore down trade barriers between the United States, Canada and Mexico, making trade and investment easier for businesses without allowing the cross-border movement of labor. Since 1994 the three countries have been sued by corporations in order to weaken regulations. Despite the agreement being considered very advantageous for Mexico, that country's economy grew only 1.6 percent per capita on average between 1992 and 2007, and living standards did not improve.[21] Since the early 1990s Mexico has transformed into a narco-state, where drugs cartels are controlling the government. If Mexico, sharing a 2,000-mile border with the US, a strong history of bilateral trade and trade preferences during the longest economic expansion in US history, did not prosper from its trade agreement, other developing countries are not likely to either.

The United States is swapping postwar multilateralism for preferential trade and investment deals with likeminded nations because in the WTO, due to the increasing weight of developing countries, it has become more difficult to safeguard the interests of US corporations. The United States walked away from the Doha trade talks in 2008 when it concluded it was getting too little. It seems that countries like China have become major beneficiaries of the US-led postwar multilateralism. It is conspicuous that the United States sought to exclude China from the Trans-Pacific Partnership agreement.

Increasingly, the United States is experiencing difficulties in convincing European and Asians about the benefits of these free-trade agreements, which could be more properly labelled as free-capital agreements.

Compartmentalization of the world economy

Waves of neoliberal reforms have produced counter-movements. First, in Latin America, where the initial neoliberal reforms were implemented. Since the late 1990s a series of Latin American peoples have voted into power leftist governments (Brazil, Venezuela, Bolivia, Argentina, Uruguay, Paraguay, Ecuador, Peru) that have aborted neoliberal reforms and returned to a neo-developmental policy.[22] For the first time in Latin American history these countries have begun to integrate themselves and attain some form of independence vis-à-vis the United States.[23] Formerly, trade was one-sidedly directed, first towards the former colonial powers and later towards the United States. A recent development is that, apart from the EU, also Japan and China have emerged as major trading partners for Latin America. Especially China is making deal after deal in America's backyard. This process has been intensified since 2008. Mutual trade is also in goods higher up in the value-added chain.[24]

Latin American countries recently began to experiment with new forms of public ownership, especially with respect to public utilities that had been privatized in earlier waves of marketization.

In various ways destabilization originated from the United States, often in the form of court cases. For example, there is the case of an American vulture fund that had bought up, on the cheap, Argentinian government bonds, just before 'that country's default in 2001. The fund wanted to be compensated for the full price of the bond. A New York court agreed (2014), and the judge blocked all payments to the 93 per cent of other creditors who had agreed in 2001 to a cut of two thirds of their claims. The judge even forbade trading in foreign currencies within Argentine. There is also the US court case against the Brazilian oil company, Petrobas, related to charges of corruption in Brazil (2014).

The East Asian countries decided after the financial crisis of 1997 not to become dependent anymore on the US-dominated IMF and amassed huge international reserves. Most of these countries implemented measures to protect against the disturbing effects of global financial markets, although the IMF's Articles of Agreement prevents countries from protecting themselves, characterizing this as ''interfering' with 'open capital markets'. In 2009–11 South Korea, Thailand and Indonesia, among others, introduced capital controls. In 2013 India re-introduced such controls.

Since 2008 China has arranged deals with a series of countries – among which Russia, Brazil, Turkey and Malaysia – to start direct trading with the yuan. China is very active in regional cooperation. The Shanghai cooperation organization is an intergovernmental mutual-security organization founded in 2001 in Shanghai by China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan. In 2016 Pakistan and India will join. In March 2010, the ASEAN plus 3 grouping, which includes China, Japan and South Korea, established a reserve fund of

$120 billion under the so-called Chiang Mai initiative. The China-led Asian Infrastructure Investment Bank, in which China has 25–30 per cent of the shares, managed to convince most major US allies to join the bank. US treasury secretary, Lew, said 'America's international credibility and influence are under threat as China sets up rivals to the IMF and World Bank'.[25] The Chinese initiative can be seen as a result of the inability of the US Congress to back the 2010 proposed IMF reforms that would grant China more voting rights.

Generally, developing countries have expanded and created new regional and bilateral financial institutions, and even the World Bank has admitted the trend towards economic multi-polarity.

The BRICS nations (Brazil, Russia, India, China and South Africa) have established themselves as an independent force in the international arena. These countries are increasingly cooperating and meeting regularly. A Russian document holds that each BRICS state has its strong positions: China its economy; Brazil the potential of natural resources and ecology; India a demographic and scientific potential; and South Africa is the gate to Africa. The authors of the document see Russian strength lying in its political and military power.[26] The BRICS comprise 43 per cent of the global population but, so far, only 17 per cent of global trade. But this trade is becoming very important for some regions. For example, trade of BRICS countries with Africa increased tenfold during 2000–12.[27] In March 2013 a Contingent Reserve Agreement to pool reserves was created, with China contributing $41 billion, Brazil, India and Russia $18 billion each and South Africa $5 billion.[28] In 2015 a common New Development Bank was founded. Also, these countries are increasingly cooperating in the political sphere. The common BRICS initiatives constitute the first challenge to Western economic supremacy since the aborted launching of the New International Economic Order in the 1970s. A weakness of the BRICS is that many of these countries depend on the export of raw materials. Also, since 2008, they have depended too much on inflows of short-term capital from the advanced capitalist countries, which has mainly contributed to asset price inflation.

While the Great Financial Crisis was strangling the Western banking system, money increasingly flew to the BRICS countries, until 2013, once the Fed started tapering. According to *The Economist* (13 May 2010), what has allowed them to escape the financial crisis are their strong and stable publicly owned banks.

The role of China in Africa is emblematic for the changes in the global economy, offering a new mode of cooperation for African nations: delivery of raw materials in exchange for investments, not only in mining, but also in industry and infrastructure, such as roads and hospitals.[29] Trade between Africa and China increased during 2000–08 at an annual rate of 30 per cent, from $10.6 billion to $107 billion, and to $210 billion in 2013; meanwhile, US trade with Africa amounted in 2013 to $85 billion (WTO).[30] The Chinese share in African trade increased from 10 per cent in 2005 to 26.5 per cent in 2011, while that of the EU decreased from 36 per cent to 26.5 per cent.

The past few decades have seen the economic emergence of a range of developing countries. It is telling that in 2012, for the first time in modern history, the developed economies (35 OECD countries) had less than 50 per cent of global GDP (49 per cent). While the developed countries are mired in stagnation, a large number of developing countries are steaming ahead, although also in the South growth is gradually slowing down. Although the Western world is still leading in science and technology, patent applications in East Asian countries are surging. In 2011 China was leading the world in patent applications (526,000), while Japan (343,000) and South Korea (174,000) were in third and fourth place. In 2013, in spending on research and development, China was globally in second place ($220 billion) and Japan in third place ($162 billion).[31]

Generally, mercantilism received an enormous push. In mercantilism the state and private business cooperate in pursuit of common objectives.[32] Mercantilism emphasizes the production side of the economy and prefers to spur exports rather than imports. China is the most prominent adherent of mercantilism nowadays, but many East Asian countries also have undertaken mercantilist policies.

Protectionism is now flourishing despite WTO rules, especially in Russia, China, India and Brazil. This forces Western industry – automotive manufacturers, for example – to build subsidiaries in such countries in order to circumvent high tariff barriers.[33]

One of the prominent trends over the past two decades has been the advance of state-owned transnational corporations (TNCs). Although TNCs represent less than 1 per cent of corporations', they accounted in 2010 for 11 per cent of global foreign direct investment (UNCTAD, 2012). Out of 653 state-owned TNC's, 223 were from the EU and 345 from developing countries – including China, 50, Malaysia, 45, India, 20 (ibid.). Especially since 2008 a return of the state to peripheral capitalism has been noticeable, partly in reaction to the turbulence emanating from the financial crisis in the North Atlantic. Until the Asian crisis (1997–98) East Asia was known for its state-led capitalism, with authoritarianism, protectionism (especially protection of infant industries) and mercantilism. With the Asian crisis and, initially, increased influence of the IMF, these features became less prominent.

Although marketization has been a prominent phenomenon in China since the rule of Deng, it is certainly not neoliberalism that has come to the fore. The transition from plan was cautious and gradual, and induced institutional change was prominent. The Chinese government played a central role in bringing about this transition. Instead of 'shock therapy', the Chinese approach was 'groping for stones to cross the river'. It was very pragmatic: ''It does not matter whether the cat is red or black, what matters is whether it can catch mice' (Deng Xiaopin). The capitalism that emerged was in the context of a strong state, although economic governance became very much decentralized in the context of a stable institutional environment.[34] Although in China the role of state-owned enterprises has gradually diminished, they are prominent in strategic sectors so that the state can steer the economy. State-owned enterprises, although they often constitute an oligopoly, became more competitive. Prices of basic goods, such as steel, electricity, transport and grain, are fixed by the state. Also, the enormous and rapid urbanization and the concomitant building up of a transportation infrastructure are carefully planned. In Chinese towns there are few slums. A reason for worry is the extremely high investment quote that has increased over the last decade to attain about 50 per cent of GDP (even Japan and South Korea never achieved quotes above 40 per cent). Other major problems in China are real estate and stock market bubbles and growing inequality. Another reason for worry is China's capital reserve' balance, which expanded tenfold during 2003–13, to $2 trillion, and the growing inclination of Chinese government to allow Chinese savers to invest abroad. Bain & Company (2013, p. 10) expects China to add $87 trillion to the growth of total global financial assets by 2020, thereby contributing to capital super-abundance. Another worry is the rapid rise of the unregulated shadow banking sector.[35]

With respect to foreign economic relations, the Chinese state maintains control in essential spheres. Capital accounts are not liberalized, and hot money cannot freely enter or exit the country, as was the case in some other East Asian countries.[36] Since only from 2013 has China allowed the existence of private banks. Foreign direct investment has been strictly monitored, making sure that it is beneficial for the Chinese economy. This means the Chinese experience is no argument in favor of market fundamentalism.

In India, too, where the march towards the market has been very prominent the past decades, the government is not in all respects following a neoliberal recipe. For example, India rejects WTO demands to stop the production of cheap generic medicines, to which Western pharmaceutical companies claim intellectual property rights.[37] Against WTO rules, the Indian government approved, in 2013, a food bill that implies subsidized rice and wheat for two thirds of its 1.2 billion people.[38]

De-globalization, de-financialization and national sovereignty

Corporate globalization has unleashed market forces on a global scale by removing restrictions for capital flows. The illusion was the creation of a free-market utopia worldwide without appropriate governing structures. In this process economic power shifted to corporations and banks, often foreign ones, while democracy lost out. Corporate globalization has created an offshore capitalism. It has been argued here that capitalism can only be productive if it is adequately embedded in institutions that restrain capital. The World Trade Organization and many of the so called 'free-trade agreements' do exactly the opposite. Corporate globalization, as it has been practiced during the past three decades, was about removing barriers for corporations to produce and to trade however they wanted. The IMF promoted the abolishment of restrictions on short-term capital movements that has exposed many developing countries to the inflow of hot money, causing bubbles, while this hot money could create further havoc by suddenly withdrawing. The IMF, World Bank and WTO do nothing to prevent speculation at the international level, not even speculation in commodity markets. They oppose buffer stocks of commodities in order to prevent volatility in world market prices. They even oppose buffer stocks at the national level, 'advising' indebted nations to sell buffer stocks because they interfere with free markets. On the other hand, corporations do hold buffer stocks, and they can manipulate prices.

Thus, corporate globalization has given freedom to corporations while shackling nations and peoples. We have seen that some nations are shackled more than others. Some nation-states have even greatly profited from corporate globalization. Also, across nations, it is a global super-elite, linked to transnational corporations, that has profited enormously.

In most countries of the world, the share of labor in GDP has declined since the late 1970s. This trend has continued since the onset of the financial crisis. Global real average wages (without China) grew at only 0.2 per cent in 2011, down from 1.3 per cent in 2010 and 2.3

per cent in 2007 (ILO, 2013, p. 14). After 2008, only in China there has been strong wage growth. The link between productivity increases and wages has been broken in most countries. Everywhere, the plutocracy has won.

Capitalism needs to be restrained but, for the time being, this is hardly possible at the international level. Therefore, the sovereignty of nation-states should be strengthened. The Great Financial Crisis, in which the national government had to rescue the banking system, showed that the nation-state is still relevant. As Dani Rodrik has noted:

> 'Yet even as the nation-state survives, its reputation lies in tatters. The intellectual assault on it takes two forms. First, there is the critique by economists. Second, there are cosmopolitan ethicists who decry the artificiality of national borders. But today's challenges cannot be met by institutions that do not (yet) exist'.[39]

Even on the level of the EU the grip of corporations on politics is so enormous, while a real polity is absent, that the re-capture of popular power is hardly conceivable there.

In the process of corporate globalization, capital has freed itself from the shackles of the national state and nestled itself on top of the nation-state, which means: in the space above, in tax havens and territories that offer fewer or no restrictions. The threat of moving abroad gave capital enormous leverage to push for further deregulation.

Capital is well organized at the global level, but less so civil society. New institutions should emerge that can be a counterweight to the forces of corporate globalization.

We have seen counter movements that want to restore democratic and national sovereignty. This has happened most of all on the periphery of global capitalism.

The examples of Iceland and Argentina have shown how important it is for a country to take its destiny in its own hands, even if it means bankruptcy. Given the enormous power of international finance, a major problem nowadays is how to increase democratic accountability vis-à-vis this sector.

Local councils across the globe are bringing services back from the private sector (see Wainwright, 2014). For example, in Germany, by 2011 the majority of the energy distribution networks had returned to public ownership.

Another trend since 2008 is the return of the state across the globe. Those economies that maintained a developmental state and exercised control on international capital movements have stood out for their high-growth figures.

The way forward looks as follows:

> On the international level, much can be borrowed from the proposals that were brought forward in the framework of the New International Economic Order (1970s). That means installing international buffer stocks of important commodities in order to dampen price volatility. Production agreements among producers of commodities can coordinate production in order to avoid over-production and price volatility. Speculative trade in commodities should be forbidden.

- Internationally, the power of big corporations, banks and multi-national and supra-national institutions have eroded the national polity. Because democracy so far has only functioned in the context of the nation-state and at the local and regional levels, the levers of power should be brought down to those levels. At the international level, the rules of the WTO should be less biased towards the interests of corporations, while the global institutions of economic governance should be democratized.
- As corporate globalization unfolded, profits, savings and employment creation became increasingly decoupled. National savings should again be primarily used for domestic investment. Capital controls should become again a tool in international economic relations.
- Combat tax avoidance, while corporations and wealthy individuals should be taxed more.
- Roll back financialization.
- Bring under public control money creation and monetary policy. Bring down debt levels. Too-big-to-fail banks should be split up. The shadow banking system should be regulated. Abolish tax havens. Ban speculation in currencies. Tackle conflicts of interest of rating agencies and accountancy firms. Recriminalize financial fraud. Regulate more strictly trade in financial derivatives. Change the incentive system in the financial industry. Introduce a financial transaction tax, also for transactions on the stock market.
- Strengthen the cooperative sector.
- Strengthen economic democracy. During the 1960s and 1970s economic democracy made advances, especially in Northwestern Europe. This was largely reflected in the greater voice of stakeholders other than the owners of enterprises. In some countries workers'

councils have been established that have the right of co-decision-making in certain areas.

- Strengthen UN institutions, especially those that can reinforce the commons at the global level (for example, protection of the environment, rain forests, the Arctic, fish stocks)
- Economic growth should be problem-solving and avoid to the utmost wasteful and ecologically damaging production.

But first of all, the power of the financial sector and multinational enterprises should be restrained.

Conclusion

Since the mid-1970s, all across developed capitalism, labor and the public good are in retreat, and inequality is widening. At the same time there is the ascendency of the financial sector, the financialization of various economic sectors and increasing economic and financial volatility.

Although the Great Financial Crisis seems to have proved the bankruptcy of neoliberal economic policy, the assault on labor and public services intensified after the onset of this crisis, and there was a shift from private debt, mainly of banks, towards public debt. This provided a pretext to blame government finances for economic stagnation and to intensify austerity policies that further undermined the economy. The general trend across developed capitalism is that of economic stagnation and increased indebtedness. This has given unprecedented power to an overleveraged and oversized financial sector, while government policies have accommodated the banks, also after 2008.

The above-described processes were the most pronounced in the United States, the leading capitalist nation. All kinds of checks and balances that were aimed to restrict predatory practices and protect the general public have been removed. Short-termism has come to the fore with the financialization of non-financial corporations, while value-extracting activities have gained ground. The shareholders' revolution led to the consolidation of power of a plutocracy that has squeezed the economy.

More money was poured into financial speculation instead of into the real economy, while new financial products helped to create new investment outlets, thereby creating an oversized financial superstructure.

The opening up of the South for international capital, through financial pressure (the debt trap) together with the revolution in transportation and communication, enabled corporate and financial globalization that took off during the 1990s. International labor and regulatory arbitrage helped to keep wages down and dismantle restrictions on capital domestically across developed capitalism.

The United States played a leading role in creating an ever-expanding global network of institutions that provide a mainly informal regulatory framework for global capitalism, but the discrepancy is growing between the increasingly interdependent global economy and the lagging regulations at the global level. Moreover, the regulations the United States and US-led institutions want to impose intend to free capital at the global level, not restrain it.

Volatility in international financial markets did not diminish after the onset of the Great Financial Crisis. On the contrary, volatility increased while the dollar was considered a safe haven. However, the foundations of the dollar as the global currency are becoming more fragile.

Neoliberalism not only generates volatility in the economic sphere but also in the social and political spheres. The political stalemate in the United States and the political crisis in the EU cannot be considered apart from the deadlock of neoliberalism.

In the EU the financial crisis caused by deregulated finance has been exacerbated by the crisis of the euro – a currency that has no proper economic foundations. In the single market and monetary union, neoliberalism became enshrined in law and EU crisis management strengthened the position of financial capital while putting the burden upon government and the weakest in society. The political elite in many EU countries became convinced that the euro project can be saved only by a jump towards a federal Europe, through a fiscal and banking union. But the population at large does not want this to happen, while some major creditor countries also are opposed. The austerity policies in a neoliberal context, targeting the public sphere and the weakest in society, contribute to the legitimacy crisis of the EU. Therefore, also in the EU, neoliberalism deepened the political crisis. Despite this crisis, there seems to be a broad consensus on economic policy within the political elite that is accommodating the banks. The banks are so interconnected, also cross-nationally, and have the disposition over so many financial weapons of mass destruction, that they can hold politicians to ransom. The EU provides a microcosm of globalization: freedom for financial capital facilitates creation of bubbles across borders and creates structural imbalances between countries.

The new financial infrastructure, centered on New York and London and a series of tax havens, has expanded tremendously over the past three decades and has served as a giant vacuum cleaner, which is sucking up liquidity from all over the world towards a small group of financial institutions. Mechanisms to recycle the world's capital surpluses have been optimized. Pension funds, sovereign wealth funds and the rich all over the world prefer Anglo-Saxon asset managers who wield enormous power. Surplus countries accumulate US Treasury bills and dollars that can be printed without limitation in the United States. This helped the United States in absorbing a large part of the world's savings. The new 'global casino' was working for the global elites and multinationals, but the levers of power were mainly with US- and UK-based financial institutions. The global casino also lowered the tax base of states that sought to shift the tax burden onto those who cannot avoid taxes. Financialization and corporate globalization, which were driven by the United States, helped to strengthen US economic hegemony and the Anglo-Saxon core of the informal US empire. At the same time it unleashed forces that undermine this hegemony. Whereas the postwar Bretton Woods system created stability, the financialized world order created volatility and crises, also in the center.

Although there has been a convergence towards neoliberalism across the developed capitalist world, the varieties of capitalism are still prominent, and liberal market economies reacted differently to external financial shocks than did coordinated market economies. The latter generally better protected their industrial sectors, and their financial systems are more robust. They usually managed to have current account surpluses in contradistinction to liberal market economies. The real economy in coordinated market economies is less financialized. Some coordinated market economies, such as the Netherlands, experienced a rapid shift towards a liberal market economy and achieved extremely high levels of international financial integration and financial depth. Although Japan's private and public sectors are highly indebted, international financial integration is low, and Japan is well protected against disturbances in international financial markets. Germany regulated its financial sector better than did many other EU countries, and all sectors are moderately indebted. But the German banks played casino capitalism across its borders, mainly in the EU and there lie its vulnerabilities. Germany allowed toxic financial products to enter its financial system, unlike Japan. In both Japan and Germany, bank-based systems continue to exist, while in liberal market economies credit provision is usually through capital markets. But Germany is financially much more interconnected with the United States-led international financial system than is Japan. While German megabanks suffered after the financial crisis, the Japanese megabanks used the weakness of its rivals to expand, above all in East Asia.

The coming to the fore of neoliberalism diminished differences within the varieties of capitalism. It also diminished the social embeddedness of capitalism. A variety of constraints across developed capitalism that limited the freedom of capital have been gradually and partially removed. A typical example is the transformation of pension funds in a number of countries, funds that used to be bulwarks of prudent investment for the public good into cornerstones of casino capitalism. The newly created freedoms for capital have been locked in, also on the international level, in the form of WTO rules, free-trade treaties and the destabilizing existence of tax havens.

We have shown that capitalism can only function to the degree it is embedded in the particular social setting of a country. Neoliberalism aims at creating an autonomous economic sphere that is totally determined by market relations. It also tries to subordinate the social and public sphere to the market, and here it reveals its enormous potential for creating conflict. It undermines the cooperative bonds in society and the economy that are essential for the wealth of the nation.

Neoliberalism is generating forces that undermine it. First, in the developing world, where the onslaught of neoliberalism started. The larger part of Latin America succeeded in loosening itself from the embrace of the United States, IMF and World Bank. In the context of a process of regionalization, many Latin American countries said farewell to the Washington Consensus and are pursuing independent economic policies. Since the Asian financial crisis (1997), the IMF and World Bank are everywhere on the retreat, and developing nations are doing everything to avoid indebtedness and therewith the conditionality of the IMF. Many East Asian nations have begun to build up foreign currency reserves, above all dollars.

The US-led network coordinating the global economy is coming under strain because its foundations are biased in favor of the United States, while the global financial architecture the United States wants to defend creates not only volatility but threatens the global economic system as such. No substantial reform has been implemented while, as far as regulations have hardened, risk has shifted to the shadow banking sector. The financial system in the North Atlantic region is so fragile and interconnected that little is needed to trigger a financial meltdown.

Notes

1 The United States: Casino Capitalism Unleashed

1. The origins of the Great Depression are to be found in the 1920s, when output, investment, productivity and profits rose much faster than wages, inequality soared and unions were weak. Workers relied heavily on debt to finance their purchase of the flood of newly available consumer goods. During the second half of the decade economic growth was driven by credit-fueled consumption.
2. In 1971 future Supreme Court justice, Lewis Powell, distributed a widely circulated memo among business circles – a memo intended to organize the captains of industry against the legacy of the New Deal and the Great Society. The memo stated, among others: '[the]American economic system is under broad attack. Business must learn the lesson…that political power is necessary; that such power must be assiduously cultivated; and that when necessary, it must be used aggressively and with determination – without embarrassment and without the reluctance which has been so characteristic of American business…. Strength lies in organization, in careful long-range planning and implementation, in consistency of action over an indefinite period of years, in the scale of financing available only through joint effort, and in the political power available only through united action and national organizations'. Powell's memo is widely credited for having helped catalyze a new business-activist movement.
3. This policy had been tried out in New York, where an almost bankrupt city was submitted to what later would be called a 'structural adjustment program' (1975).
4. The *Financial Times* reported: 'For more than three hours, members of the House Banking Committee lined up to condemn last week's bailout of LTCM. From both sides of the political debate, members attacked the operation as – at best – an indictment of the central bank's poor scrutiny of the US financial system, and – at worst – a piece of crony capitalism in which Mr. Greenspan and his senior colleagues were protecting the well fed princes of American banking' (*Huffington Post*, 8 December 2010).
5. The technology start-ups that flooded the market in the late 1990s often had no earnings at all. Their intrinsic value was zero. For example, a plodding bookseller announced it was improving its website. Within three days its share price increased tenfold (Mallaby, 2011, p. 253).
6. The three definitions of financialization given here are not mutually exclusive but complementary. The term 'financialization' was first introduced by Paul Sweezy (More or Less) on Globalization, September 1997, *Monthly Review*, Vol. 49, No. (4) to describe the financial explosion in the capital-accumulation process.
7. *New York Times*, 19 June 2009.

8. *Wall Street Journal*, 2 May 2010.
9. *Mother Jones*, 26 May 2009.
10. *Bloomberg*, 30 August 2009.
11. *Frankfurter Allgemeine Zeitung*, 25 September 2010.
12. Ellen Brown, in *Information Clearing House*, 23 July 2013.
13. *Financial Times*, 9 November 2010.
14. *Huffington Post*, 27 April 2010.
15. www.publicintegrity, 22 September 2011.
16. *Counterpunch*, 22 June 2009, Michael Hudson.
17. *New York Times*, 13 April 2011.
18. *Huffington Post*, 27 April 2010.
19. *The Atlantic*, 4 January 2010.
20. *Huffington Post*, 9 August 2011.
21. *The Guardian*, 16 January 2012.
22. *Wall Street Journal*, 6 August 2011.
23. *The Guardian*, 25 February 2012.
24. Ibid, 9 August 2002.
25. *The Guardian*, 2 September 2009.
26. Matt Taibbi, in *Rolling Stone*, 17 August 2011.
27. *Rolling Stone*, 17 August 2011.
28. *Huffington Post*, 14 January 2015.
29. *Financial Times*, 11 April 2015.
30. *Forbes*, 6 March 2014.
31. *Huffington Post*, 20 February 2011.
32. *Harvard Business Review*, January–February 2014.
33. *McKinsey Quarterly*, 2001, No. 4.
34. In 2012 the United States was 16th according to the OECD ranking of cable quality, with an average of 27 megabits per second, compared with up to quadruple that quality in countries like Japan and The Netherlands.
35. For example, the painkiller Ceebrex costs $258 in the United States but only $53 in Canada; the drug Nexirum costs $373 in the United States, but in Spain $18 (International Federation of Health Plans; 2012 comparative report).
36. *Huffington Post*, 19 June 2014.
37. Ibid, 23 May 2013.
38. Ibid, 21 December 2010.
39. During 2001–06 the US information sector lost 17.7 per cent of its workforce, the communications equipment workforce shrank by43 per cent and the semi-conductor workforce by 37 per cent (Roberts, 2013, p. 106).
40. The US government issues about 65,000 H1B visas (employment-based, non-immigrant visas) each year. Of the ten fastest-growing occupations in the United States, seven are in healthcare and social assistance (Roberts, 2013, p. 108, p. 110).
41. A precariat refers to people suffering from precarity, which is a condition of existence without predictability or security, for example people on short-term contracts.
42. *Open Democracy*, 4 March 2014.
43. *Huffington Post*, 20 November 2010.
44. *MrZine*, 3 August 2010.

45. Information Clearing House, 30 May 2013.
46. Quoted in *The Nation*, 26 March 2013.
47. *Financial Times*, 1 November 2013.
48. A study by William Megginson, a privatization expert at the University of Oklahoma, found that between 1961 and 2000 just two state-owned enterprises were privatized through a public share offering in the United States: Conrail in the late 1980s and United States Enrichment Corporation in 1998. By contrast, there were 43 such privatizations in Britain (*The Guardian*, 5 November 2013).
49. World Socialist Web Site, 13 April 2013.
50. *Huffington Post*, 8 March 2013.
51. *Financial Times*, 17 July 2015.

2 The United States: The Great Financial Crisis and Its Aftermath

1. For example, Freddie Mac's subprime mortgage holdings had reached $244 billion, or 14 per cent of its portfolio (*BusinessWeek*, 16 December 2011).
2. *Counterpunch* 13 May 2010.
3. The Fed saw problems in the subprime mortgage market, August 2007, as good news because markets were pricing in more risk, Fed minutes revealed (*Financial Times*, 20 January 2013). Also, the extent of AIG's exposure to subprime mortgages was not known to the Fed in August 2007. D. Kohn, vice-chairman of the Fed, said '[M]y forecast…over the next few years, is growth a little below potential for a few quarters…limited in duration and effect' (ibid.). Also, the ratings agencies failed to notice anything. Until six days before Lehman's collapse, the ratings agency Standard & Poor's maintained the firm's investment grade rating of A1. Moody's waited even longer, downgrading Lehman one business day before it collapsed (*The Guardian*, 13 September 2013).
4. New York Fed, staff report nr. 719, p. 3, March 2015.
5. David Malone, Golem XIV, 17 December 2011.
6. See analysis of Ellen Brown, Information Clearing House, 18 September 2013.
7. For insiders the Lehman bankruptcy was not unexpected. Already in 2007 there were numerous signs that Lehman was in big trouble. In May 2008 hedge-fund manager Eichhorn exposed Lehman weaknesses publicly, upon which shares of Lehman plunged. Also, the failure of Bear Stearns, the world's seventh-largest investment bank, which had been taken over by JP Morgan under pressure from the Fed, 17 March 2008, should have served as a warning.
8. Counterpunch, 10 September 2009.
9. According to the *New York Times* (20 September 2014), this memo never reached senior officials before they decided to let Lehman Brothers fail.
10. *New York Times*, 14 September, 2009. '[Bernanke] went literally down on his knees before Nancy Pelosi, speaker of the House of Representatives, begging her to agree…to bail out the financial system. Bernanke, a scholar of the financial panic that caused the Great Depression, told fearful lawmakers there wouldn't

be a banking system in place by Monday morning if they didn't act'. Paulson talked openly about planning for martial law, about how to feed the American people if banking and commerce collapsed. 'The Fed and Treasury knew that they could count on Congress's abysmal ignorance of anything financial; and they weren't disappointed. On October 3, 2008, Congress passed the Financial Rescue Plan (TARP)[.] Paulson's fear-mongering had triumphed.' (M. Whitney, Information Clearing House, 15 September 2009).

11. Hank Paulson is a former Goldman Sachs executive who made $700 million in dealing with shadowy, high-risk activities. He was appointed Treasury secretary just before the collapse of Lehman brothers. He was instrumental in appointing other Goldman Sachs people to key positions. For example: Ed Liddy, became CEO of insurer AIG; A. Storch, in charge of the SEC; G. Gensler, in charge of the Commodities Futures Trading Commission; M. Patterson, Geithner's chief of staff. Therefore, many were talking about Government Sachs.
12. *Huffington Post*, 23 August 2010.
13. *Huffington Post*, 29 March 2009.
14. *Financial Times*, 8 February 2013.
15. World Socialist Web Site, 31 July 2012.
16. *Mother Jones*, 26 May 2009.
17. *Huffington Post*, 23 August 2010.
18. *Rolling Stone*, 12 April 2011.
19. Federal Reserve Act: www.federalreserve.gov.
20. *The Guardian*, 24 March 2009.
21. According to Senator Carl Levin (*Huffington Post*, 27 April 2010), Goldman Sachs's 'own documents show that while it was marketing risky mortgage-related securities, it was placing large bets against the US mortgage market. The firm has repeatedly denied making those large bets, despite overwhelming evidence'.
22. *Huffington Post*, 27 January 2010. In 2012 AIG freed itself from a $182 billion bailout and has gone back to the private sector.
23. *Huffington Post*, 5 August 2014.
24. *Huffington Post*, 25 May 2015.
25. During Q1–3 of 2012, Wells Fargo had 30 per cent of the US mortgage market, JP Morgan 10 per cent, UBS 5 per cent, Bank of America 4 per cent and Citigroup 4 per cent (*Financial Times*, 12 January 2013).
26. *Huffington Post*, 3 May 2013.
27. *Wall Street Journal*, 9 September 2014.
28. 'If we compare bonuses and profits for roughly the last five years (about $500 billion in the USA) with the economic losses produced in the financial crisis the bankers caused (about $4 trillion in value destroyed in the USA, not counting the ongoing travails of the 22 million people who haven't yet been able to find a full-time job) it appears that for every dollar "earned" on Wall Street, about 8 dollars were destroyed' (Les Leopold, in *Huffington Post*, 21 January 2011).
29. *Huffington Post*, 25 April 2013.
30. *Wall Street Journal* 11 August 2014.
31. *Financial Times*, 18 February 2013.
32. There are only a few cases of disciplinary measures. For example, the agreement Deloitte made with the New York's Financial Services Department to

a one year's suspension from providing consultancy to hundreds of financial institutions. The department cited 'misconduct, violation of law, and lack of autonomy' (*Financial Times*, 19 June 2013). Ernst &Young has been fined $123 million by the regulator for helping wealthy individuals dodge $2 billion in taxes (*The Observer*, 3 March 2013).

33. In the United States the board of accountants decided to adopt new accounting rules (January 2013) that substantially reduce the role of market value in financial statements. This makes it easier for the banks to value assets as they deem appropriate (*Information Clearing House*, 19 February 2013).
34. However, S&P has been accused by the US Justice Department of defrauding investors in mortgage-related securities out of at least $5 billion, issuing inflated ratings to win hundreds of millions of dollars in fees (*Financial Times*, 6 February 2013).
35. *Frankfurter Allgemeine Zeitung*, 1 May 2012.
36. *The Economist*, 27 April 2013.
37. Zerohedge.com, 24 September 2011.
38. Speed is so important in high-frequency trading that a 1,000km cable is installed between Chicago and New Jersey. [See. Attribution intended here?] Every millisecond is important. The average duration of a transaction is speeding up. In 2006 it was 0.021 second, early 2013 it was 0.00026 second.
39. *Frankfurter Allgemeine Zeitung*, 19 January 2013.
40. In the EU the UK prevented measures to regulate high-frequency trading (*The Guardian*, 7 June 2014).
41. During 2009 and the first half of 2010, the Fed purchased close to $1 trillion in mortgage-backed securities (IMF, April 2013, p. 116).
42. *Frankfurter Allgemeine Zeitung*, 27 February 2013.
43. M. Chang, *Global Research*, 8 July 2013.
44. *Huffington Post*, 25 April 2013.
45. *Information Clearing House*, 28 September 2012.
46. *Financial Times*, 26 February 2013.
47. *Financial Times*, 9 February 2013.
48. E. Brown, *Information Clearing House*, 23 July 2013.
49. By late 2013 MF Global's customers were all assured to be completely compensated (*International New York Times*, 7 November 2013).
50. *International Herald Tribune*, 8 January 2013.
51. *Bloomberg*, 20 September 2013.
52. *The Guardian*, 5 November 2012.
53. *Information Clearing House*, 22 January 2013. Wall Street banks and their foreign rivals paid out about $100 billion in US legal settlements from the start of the financial crisis in 2008 till early 2014. Only in 2013, $52.5 billion was paid out (*Financial Times*, 26 March 2014).
54. *Huffington Post*, 6 March 2013.
55. Household-sector debt declined from $13.8 trillion to $13.0 trillion while financial-sector debt diminished from $15.7 trillion in 2009 to $14.1 trillion in 2013 (Fed, 6 March 2014). Household deleveraging had a very negative impact on the economy because consumer spending accounts for 70 per cent of GDP.
56. Shadowstats.com.
57. *Huffington Post*, 7 July 2013.

58. In January 2015 the consumer confidence index for the first time since 2008 attained 100.
59. *Huffington Post*, 10 March 2013.
60. Dean Baker, in *Huffington Post*, 4 November 2013.
61. Fed, 16 March 2014.
62. *Financial Times*, 11 May 2015.
63. In 2014, the enterprises of the S&P 500 bought back $430 billion of shares while borrowing, through corporate bonds, $577 billion. They have spent in 2013 $375 billion on dividend payouts (*Information Clearing House*, 7 May 2015).
64. *Wall Street Journal*, 26 May 2015.
65. *Social Europe*, 12 August 2011.
66. *New York Times*, 1 June 2009.
67. Senator Bernie Sanders, *Huffington Post*, 14 August 2012.
68. The top marginal income tax rate peaked at 94 per cent during World War II and remained at 70 per cent through the 1960s and 1970s; it was, in 2013, 39.6 per cent. Tax fairness has become much worse since the early 1980s. General Electric has become the symbol for multinational corporations that have their headquarters in the United States but pay almost no taxes – its effective corporate-tax rate averaged less than 2 per cent from 2002 to 2012 (*New York Times*, 14 April 2013).
69. Senator Bernie Sanders, *Huffington Post*, 9 January 2013. Federal government spending went down since Q2 2010 to 24.9 per cent, and to 22 per cent in Q1 2015.
70. *Huffington Post*, 1 January 2013.
71. Senator Bernie Sanders, *Huffington Post*, 9 January 2013.
72. *New York Times*, 2 April 2013.
73. *Financial Times*, 31 December 2013.
74. *Huffington Post*, 24 June 2011.
75. *Financial Times*, 4 November 2013.
76. *Der Spiegel*, nr. 45, 2012.
77. *The Independent*, 17 October 2010.
78. *New York Times*, 7 October 2010.

3 The Variety of Capitalism and Neoliberalism

1. The German economy had been paralyzed by reparations payments to the victors of World War I: 33 per cent of government expenditures in 1921–22 was for reparations payments. This was financed by printing money and led to hyperinflation. This hampered economic development, and unemployment soared in Germany to 44 per cent (1933). Britain and France insisted upon war reparations because the United States insisted that the two countries must repay the US war loans (Desai, 2013, p. 21).
2. In 1953, 60 per cent of German debt was cancelled, while for the rest of the debt a moratorium was installed during 1953–58.
3. At the end of World War II the United States had 70 per cent of the world's monetary reserves (Desai, 2013, p. 107).
4. http://www.ggdc.net/maddison/maddison-project/data.htm

5. Quoted in *Le Monde Diplomatique*, January 2002, p. 29.
6. *Financial Times*, 15 October 2013.
7. *Wall Street Journal*, 24 May 2013.
8. *Forbes*, 19 May 2009.
9. According to Greenspan (2007, p. 290), the Japanese did not clear up their banking system because of cultural factors: they wanted to avoid loss of face.
10. *Financial Times*, 28 December 2010.
11. Private-sector credit is mostly through the banking system. It amounted to almost 200 per cent of GDP in Japan, whereas in the UK 160 per cent of GDP and in the United States less than 100 per cent (IMF, Japan: Financial Stability Assessment Update, August 2012, p. 44).
12. Share-ownership survey, 2014.
13. Stiglitz, *Social Europe*, 8 April 2013. If we take into account the new way the United States counted GDP figures, which overstates GDP growth compared to other countries, the difference disappears (see Paul Craig Roberts in *Global Research*, 30 October 2012).
14. It should be noted here that during Thatcher's first two years in office inflation soared.
15. poverty.org.uk
16. The UK is also attractive for foreign public institutions, like sovereign wealth funds and public pension funds. The UK is the first destination for these kinds of funds, which manage about $30 trillion of investments worldwide (*Financial Times*, 23 June 2014).
17. *The Economist*, 1 March 2014.
18. *The Guardian*, 11 April 2013.
19. *The Guardian*, 7 November 2013.
20. *The Guardian*, 23 September 2012.
21. *The Guardian*, 18 September 2014.
22. *The Guardian*, 24 June 2013.
23. UK Office of National Statistics, 17 September 2013.
24. *The Guardian*, 8 December 2011.
25. The description is from Gray (1998), p. 94.
26. *Frankfurter Allgemeine Zeitung*, 20 October 2012.
27. *Der Spiegel*, 26/2013, p. 62.
28. De Nederlandse Bank, 27 December 2013.
29. Financial Stability Board, 2012, p. 15.
30. *De Volkskrant*, 14 April 2011.
31. *De Volkskrant*, 27 July 2012.
32. *NRC*, 21 December 2009.
33. Between 2008–12 the investment ratio as share of GDP diminished in the Netherlands from 16.4 to 14.8 per cent, and in the eurozone from 22.5 to 19.9 per cent (Eurostat).
34. The Netherlands accounted for 5.5 per cent of global capital exports in 2013 (IMF, 2014).
35. *De Volkskrant*, 24 January 2013.
36. *Social Europe*, 4 April 2013.
37. *Harvard Business Review*, January 2014.
38. The share of wages in GDP increased in South Korea from 44.3 per cent in 1980 to 50.6 per cent in 2010, and in Japan from 54.6 per cent in 1980 to

59.0 per cent in 2010, followed by a decrease to 52.1 per cent in 2012 (ILO, 2013).

39. *The Economist*, 11 May 2013.
40. *Financial Times*, 19 June 2013.
41. Database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts, 1960–2010, compiled by Jelle Visser, at the Amsterdam Institute for Advanced Labour Studies AIAS, University of Amsterdam.

4 European Monetary Union and Freedom for Capital

1. The European Round Table is the exclusive lobbying vehicle for big business, run by the chief executives of more than a hundred corporations.
2. For example, under the banner of 'open for competition', EU member states were forced to open up a number of public utilities and natural monopolies for privatization. National railways were forced to separate various activities and open up for competition. The EU transformed into a 'liberalization machine' (Streeck, 2014a) in order to open up EU economies for capital.
3. Common social regulations have to be agreed upon in the Council of Ministers, where agreement is difficult to reach.
4. For example, the German government is complaining about the fact that the European Commission is trying to destroy its environment-friendly energy policy because it conflicts with the competition rules of the Single Market (*Frankfurter Allgemeine Zeitung*, 26 June 2014).
5. Corporate Europe Observatory, 9 April 2014.
6. *EU Observer*, 4 March 2013.
7. Corporate Europe Observatory, 9 April 2014
8. April 1989 the euro had been proposed in *Report on Economic and Monetary Union*.
9. President Mitterrand considered the D-mark as 'Germany's atom bomb' and wanted to submerge it into a common currency (*The Economist*, 29 September 2012).
10. Mundell explained to Greg Palast that, in fact, the euro is a piece of Reaganomics (*The Guardian*, 26 June 2012).
11. *The Guardian*, 26 June 2012.
12. The EU, during the 2000s, even pressed for loosening of capital requirements of banks, from 30 to 15 per cent.
13. When the EMU started there was a warning by the EU's own economists and the Bundesbank that the undertaking was not workable without fiscal union and probably catastrophic if extended to Southern Europe; 68 economists signed 13 February 1997 a letter against EMU (*NRC*, 20 February 2010). These warnings hardly appeared in the press.
14. *Der Spiegel*, 30 December 2011.
15. It could happen that Barclays Luxembourg could post a profit of £1.4 billion in 2013, that is 100 million pounds for each Barclays employee in Luxembourg (*The Guardian*, 30 June 2014).
16. *Financial Times*, 4 May 2012.
17. World Socialist Web Site, 1 July 2010.

18. This does not apply to Italy. During 2000–11 the Italian economy hardly grew.
19. The World Bank until late 2011 described the EU as a convergence machine while describing financial-sector deregulations and integration as one of the biggest successes of the EU (Gill and Raiser, 2011).
20. The economists Jörg König and Renate Ohr have elaborated an EU index for each EU country in order to measure the level of integration. The index is composed of 25 indicators in four fields (common market, homogeneity, symmetry and conformity to EU law. Although the index of most EU countries has increased from 1999 to 2010, the difference between the most advanced (in the EU core) and peripheral EU countries has grown. Also, the heterogeneity within the eurozone has increased (*Frankfurter Allgemeine Zeitung*, 27 October 2012).
21. *Der Spiegel*, 30 December 2012.
22. *New York Times*, 29 December 2010.
23. *The Observer*, 24 April 2011.
24. *The Guardian*, 2 February 2011.
25. *The Guardian*, 3 February 2012.
26. *Le Monde Diplomatique*, February 2013, p. 11.
27. *New York Times*, 1 May 2010.
28. The report, *Tax Evasion across Industries: Soft Credit Evidence from Greece* (the University of Chicago), which documents the hidden, non-taxed economy, blames the current malaise not on dodgy taxi drivers or moonlighting refuse collectors, but on the professional classes. They found that €28 billion of tax was evaded in 2009 by self-employed people alone. As GDP that year was €235 billion and the total tax base was just €98 billion, it is clear that this was a significant sum (*The Guardian*, 9 September 2010).
29. *Bloomberg*, 5 March 2012.
30. *Bloomberg*, 14 June 2012.
31. *Der Spiegel*, 30 December 2011.
32. *New York Times*, 5 November 2011.
33. *The Economist*, 6 October 2012.
34. *International Herald Tribune*, 26 June 2012.
35. *The Guardian*, 13 April 2012.
36. *New York Times*, 30 December 2011.
37. However, Italian public debt worth 9 per cent of GDP were not included because it was outstanding debt of public authorities to suppliers.
38. *Financial Times*, 26 June 2013. These derivative contracts, involving swaps, would cost the Italian government around $8 billion, it appeared in June 2013 (*Financial Times*, 26 June 2013).
39. While the state paid over 13 per cent of GDP in interest on its public debt (which is, by the way, a redistribution from low-income tax payers to high-income investors) in the early 1990s, this burden has been lowered to less than 4.5 per cent since the country joined the euro (Social Europe, 28 February 2013).
40. Collignon, in *Social Europe*, 28 February 2013.
41. In Sicily members of parliament earn 500,000 euro per year. Sicily, with few forests, has 26,000 forestry workers (*The Guardian*, 21 July 2012).
42. *Financial Times*, 30 July 2012.

43. Some US banks estimated that at least half of subprime-linked CDOs were being sold to Europe, via London (*Tett*, 2010, p. 116).
44. The Commission of the EU proposed that big banks are not automatically forced to split up lending operations from risky trading, which means that separation is no longer mandatory (*Financial Times*, 6 January 2014). The EU proposal that will outlaw proprietary trading applies only to 30 of EU's 8,000 banks, while firewalls that separate two kinds of banking activities are riddled with loopholes.
45. Since 2008 France and Germany persistently blocked proposals to increase capital requirements of banks (*Social Europe*, 28 April 2014).
46. French attempts to introduce a financial transaction tax, and German proposals to regulate high-frequency trading have been blocked by the UK; 11 Eurozone countries want to go ahead with the financial transaction tax.
47. Germany has forbidden short selling.
48. Research of the Financial Stability Board (2012) has shown that the US's share of the global shadow banking system is clearly shrinking (from 44 per cent in 2005 to 35 per cent in 2011), while that of the EU, and particularly the UK, is growing. The eurozone shadow banking system is estimated to be $16.8 trillion, in the UK, $6.8 trillion, while globally the sector's estimated value is $23.6 trillion (*EU Observer*, 5 September 2013).
49. *Frankfurter Allgemeine Zeitung*, 16 September 2012.
50. *Frankfurter Allgemeine Zeitung*, 23 January 2013.
51. October 2012 Ecuador asked the WTO to review financial rules so that the country could preserve its ability to create regulations that ensure 'the integrity and stability of the financial system'. The proposal was rejected by the United States, the EU and Canada (*New York Times*, 17 March 2013).
52. It depends very much what method has been used. For example, the balance of Deutsche Bank is according to IFRS, $2.1 billion, but according to the US GAAP, $1.2 billion (*Financial Times*, 18 February 2013).
53. *FinanceWatch*, September 2013, p. 23.
54. In the UK, the Big Four seconded staff to the Treasury in order to 'advise' on tax legislation (*The Guardian*, 26 April 2013). Shaxton described the accounting giants as the 'private police force of capitalism' (2011, p. 176).
55. Financial Stability Paper, nr. 18, Bank of England, October 2012.
56. *The Guardian*, 13 March 2013.
57. John Cruz, a former vice-president of HSBC bank, has revealed how this bank transformed into a truly criminal enterprise in which the bank's leadership willingly engaged in criminal activities (*Information Clearing House*, 24 June 2013).
58. Reuters, 10 March 2014.
59. Another peculiar phenomenon is the bank credit to GDP ratio. It fell in Japan, Finland, Sweden and Norway during earlier financial crises by, on average, 27 per cent, over an average period of 7 years. In Ireland it went down by 12 per cent during 2008–11 but in Italy it went up by more than 10 per cent, and in Spain it did not decrease during this period (Deloitte, 2012, p. 8).
60. *Financial Times*, 1 October 2013.
61. The Basel III rules will only come into force in 2019.
62. Corporate Observatory, 24 January 2014. Especially British banks are weakly capitalized. HSBC, the best capitalized, has a leverage ratio of only 4.6 per

cent, while Barclays' ratio is under 3 per cent. The Bank of England proposed a 3 per cent leverage ratio, but this is very low; in the United States the regulator is asking 5–6 per cent (*The Guardian*, 26 June 2013).

63. *The Independent*, 12 May 2015.
64. *De Volkskrant*, 2 April 2013.
65. The negative market value exposure, if things turn bad, is maximal $ 756.4 billion (Zerohedge.com; 29 April 2013).
66. *Global Financial Stability Report*, IMF, April 2014, p. 45 and April 2015, p. 21.
67. In first place was Germany, with its banks holding €225 billion of non-performing loans; in second place Britain (€175 billion); in third place Ireland (€110 billion); and in fourth place Spain (€100 billion) (PWC.com, 27 March 2015).
68. For example, several German banks have heavily invested in shipping, which is in crisis now. Just one bank, Nordbank, is exposed to €27 billion credits to the shipping industry (*Frankfurter Allgemeine Zeitung*, 11 October 2013).
69. *BusinessInsider*, 31 March 2009.
70. *Frankfurter Allgemeine Zeitung*, 14 October 2011.
71. Irish banks failed shortly after the European Banking Association gave the green light in their stress test (*The Guardian*, 17 July 2011). Belgian/French Dexia passed, without problems, the second and 'improved' stress test of the EU (October 2011). Only a few days later, Dexia had to be dismantled and got huge state injections.
72. *FinanceWatch*, September 2014.
73. *Frankfurter Allgemeine Zeitung*, 9 July 2015.
74. *The Economist*, 4 May 2013.
75. *The Economist*, 4 May 2013. In the EU, SMEs needed, during 2013–18, around €3.5 trillion (*Frankfurter Allgemeine Zeitung*, 25 June 2013).
76. *Financial Times*, 20 September 2013.

5 The Euro as a Divisive Force

1. *The Guardian*, 9 June 2013
2. Guarantees provided by US lenders, which are 5 large US banks, on government, bank and corporate debt in PIGSI countries amounted to $518 billion, according to the Bank for International Settlements. US banks have $181 billion exposure to the PIGSI countries. Banks that issued CDS's in PIGSI debt, often insured these CDS deals as well with counterparties. Therefore a default could trigger a chain reaction of claims that could bring down the whole financial system (*Bloomberg*, 1 November 2011).
3. As a matter of fact, most heavily indebted countries that went bankrupt, did quite well after a short period of decline. When Argentine declared bankruptcy in 2001, recovery started one year afterwards and since 2002 Argentine is the fastest growing economy in Latin America. By 2009, GDP was twice that in 2002, during the low point of recession (*The Guardian*, 3 January 2011).
4. *New York Times*, 6 June 2010.
5. *International Herald Tribune*, 4 June 2010.

6. Important in comparing debt levels is maturity of debts, percentage of foreign loans and interest payments on loans, factors that differ greatly among Eurozone countries.
7. *Social Europe*, 26 March 2012.
8. *Der Spiegel*, 19 March 2015.
9. *New York Times*,18 June 2011.
10. *Frankfurter Allgemeine Zeitung*, 21 March 2015.
11. *International New York Times*, 21 August 2014.
12. The Target crediting system of the ECB, an indication of capital flight, shows a deficit for Greece of €76 billion by late January 2015 (*Frankfurter Allgemeine Zeitung*, 27 February 2015). From November 2014 to end April 2015, €70 billion have been moved from Greece to other Eurozone countries (*Financial Times*, 22 June 2015). Emergence Liquidity Assistance for Greece, through the Greek Central Bank, amounted 20 June 2015 to €85.9 billion.
13. *De Volkskrant*, 15 December 2011.
14. *Financial Times*, 18 June 2015.
15. *Financial Times*, 26 January 2015.
16. *Financial Times*, 15 February 2015.
17. The size of the Greek army is 156 000, that of Germany 250,000 . There were no demands for cutting arms expenditures. The defense budget amounts to 2.2 per cent of GDP (Spain, The Netherlands and Germany spend around 1 per cent of GDP, 2014).
18. 8 November 2013, yanisvaroufakis.eu
19. *The Guardian*, 8 November 2012.
20. *Frankfurter Allgemeine Zeitung*, 9 October 2013.
21. Jean-Claude Trichet, ECB chairman, rang up the Irish finance minister the weekend before the decision to tell him: 'you must save your banks at all costs' (*EU Observer*, 1 October 2013).
22. The IMF said 'The failure of policy makers to impose losses on some bank creditors at the height of Ireland's financial crisis was a mistake that forced Irish tax payers to foot a bill that should have been borne by the wider eurozone' (*Financial Times*, 30 January 2015).
23. Ireland – with less than 1 per cent of the EU's population – has paid a staggering 42 per cent of the total EU bank debt bill, at a cost of a quarter of annual GDP. The per capita cost of the bank crisis for the average EU citizen is €191. In Ireland the cost per head is just under 9000 euro. That's almost 50 times what everyone else has paid (*Social Europe*, 6 February 2013).
24. *Financial Times*, 2 May 2013.
25. *The Guardian*, 29 November 2010.
26. *Financial Times*, 10 November 2013.
27. *The Guardian*, 1 October 2010.
28. *The Guardian*, 20 May 2012.
29. *Social Europe*, 12 February 2013.
30. *International Herald Tribune*, 28 June 2013.
31. *New York Times*, 17 December 2010.
32. *New York Times*, 22 December 2011.
33. In Spain, for 2012, a 5.3 per cent budget deficit was promised; it became 10.6 per cent; the target for 2013 was 6.5 per cent; it became 7.1 per cent.

34. *Social Europe*, 3 March 2014.
35. Net external debt is: for Italy 62 per cent of GDP, for Spain 94 per cent, for Greece 132 per cent and for Portugal 103 per cent (2014, Q4, Eurostat).
36. Public-sector debt is much larger than the official mountain of sovereign debt suggests, because the huge foreign debt of many municipalities and hospitals are not included.
37. *Financial Times*, 5 March 2014.
38. *The Economist*, 4 July 2015.
39. *The Guardian*, 22 March 2013.
40. *International Herald Tribune*, 30 April 2013. The Cypriot president has provided the state prosecutor with documents in order to prepare a case against the governor of the central bank, Demetriades. ECB president, Draghi, defended the governor, citing the independence of the central bank (*Financial Times*, 21 October 013).
41. *New York Times*, 27 March 2013.
42. *Frankfurter Allgemeine Zeitung*, 10 June 2013.
43. *The Guardian*, 10 October 2012.
44. By mid-February 2013, the ECB had bought for €218 billion state obligations: €103 billion euro from Italy, €23 billion from Portugal and €34 billion from Greece (*De Volkskrant*, 21 February 2013).
45. A report of DG ECFIN stated that it should be possible 'to promote measures that lead to a global reduction of the ability that trade unions have to set wages' (2012). According to the European Council, 'the obstacles of institutional nature to a flexible adjustment of prices and salaries to market conditions (must be) suppressed' (*Social Europe*, 27 June 2013).
46. June 2013 the IMF said: 'The Fund approved an exceptionally large loan to Greece under a stand-by agreement in May 2010 despite having considerable misgivings about Greece's debt sustainability. The decision required the Fund to depart from its established rules on exceptional access. However, Greece came late to the Fund and the time available to negotiate the program was short'. (*IMF Country Report Greece*).
47. *Financial Times*, 29 January 2013.
48. *Frankfurter Allgemeine Zeitung*, 10 July 2014.
49. *Finance Watch*, March 2015.
50. *EU Observer*, 29 January 2014.
51. Sinn, H-W, in *Financial Times*, 29 January 2013.
52. The German Constitutional Court in Karlsruhe ruled that the ESM cannot become a vehicle of unconstitutional state financing by the ECB, something that the ECB actually wants to do (*Der Spiegel*, 13 September 2012). The court also established that the ESM can only borrow from capital markets and not from the ECB. Article 123 of the Treaty on the EU forbids the use of the printing press to bankroll governments and public authorities. Actually, the ESM is doing all this while the conditions for assistance are hardly specified. February 2014 four out of six judges of the Constitutional Court found that the ECB buying up government bonds is illegal and asked the European Court to judge on the matter. According to the General Prosecutor of the European Court of Justice the buying up of sovereign bonds by the ECB is legal (*Frankfurter Allgemeine Zeitung*, 14 January 2015).

53. During 2000–14 labor compensation per hour increased in Germany by 29.4 per cent but in Italy by 35.2 per cent, in Spain by 41.6 per cent and in Greece by 31.4 per cent (Eurostat).
54. McKinsey Global Institute, 2013, p. 3.
55. *Social Europe*, 23 April 2013.
56. *Social Europe*, 24 September 2012.
57. The IMF forecast originally that economic activity would be reduced by only $.50 for every $1 of fiscal spending. The IMF admitted that it had underestimated the impact of government expenditures cuts. A paper authored by IMF chief economist Olivier Blanchard (and D. Leigh) found that every dollar governments cut from their budgets actually reduced economic output by $1.50 (IMF Working Paper 13/1, January 2013).
58. Government budget deficits were in 2014–5.8 per cent in Spain, -3.5 per cent in Greece, -4.1 per cent in Ireland and -4.5 per cent in Portugal (Eurostat).
59. Jonathan Portes, in *Social Europe*, 31 October 2012.
60. The most famous episode of austerity was during the interwar years, as Germany, Britain, France and Japan all fought to stay on the gold standard, even amid the Great Depression. The deflationary impact of keeping their currencies pegged to gold, along with the austerity policies they followed to do so, was disastrous. In Britain, unemployment jumped from 10.4 per cent in 1929 to 22.1 per cent by early 1932, even while government debt surged. In Germany, the Social Democrats stupidly clung to the orthodoxy of austerity, pushing joblessness up to 30 per cent by 1932, and opening the door to the Nazis (*The Guardian*, 11 March 2013).
61. *Financial Times*, 10 October 2012. In 1938 real output in the United Kingdom was hardly above the level of 1918, with growth averaging 0.5 per cent.
62. *The Guardian*, 7 January 2013.
63. ECB, April 2013, The Eurosystem Household Finance and Consumption Survey (data are from 2010).
64. For example, the plan to create a single eurozone banking supervisor is illegal, according to a secret legal opinion given to EU finance ministers (*Financial Times*, 18 October 2012). A problem with this banking union is also that the ECB will get a supervisory role, and this creates a conflict of interest.
65. When Spain legalized more than a million illegal immigrants, without consultation with EU partners, these immigrants suddenly could move to other EU countries. When Italy gave illegal immigrants provisional documents with which they could travel to other EU countries, France re-installed border controls on the Italian border. With the 2015 immigration wave, many EU countries reinstated border controls.
66. Streeck (2014, p. 82) pointed to the fact that many EU finance ministers are asking advice from major buyers of government bonds, such as PIMCO, about budgetary policy.
67. A depth was reached in spring 2013, with 30 per cent having a positive view on the EU and 31 per cent having trust in the EU.
68. *The Guardian*, 11 May 2010.
69. *Open Democracy*, 15 April 2013.

6 Globalization, Financialization and US Power

1. The Argentinian junta increased the national debt, from 1976 onwards, from less than \$6 billion in just a few years to \$46 billion. The money was mainly used to fuel financial speculation.
2. It is noticeable that the overwhelming majority of economists in the international financial institutions in Washington are either economists from the Anglo-Saxon world or economists who have degrees from a small group of universities in the Anglo-Saxon world. In 2000, IMF professional staff was comprised of 24.8 per cent Americans, 3.9 per cent Canadians, 6.2 per cent English and only 14.8 per cent Asians (*IMF Annual Report*, 2001, p. 86).
3. The external effect of dollar interest rates have been foreseen. In 1978, just before being appointed by President Carter as chairman of the Fed, Volcker said: ‘a controlled disintegration in the world economy is a legitimate objective for the 1980s’ (Varoufakis, 2013, p. 100).
4. In the course of the 1990s a recognition emerged within the IMF and in Western capitals that many debts were unpayable and had to be written off.
5. *The Guardian*, 28 May 2014.
6. The World Bank is the only institution assessing global poverty levels. In 1990 it introduced the criteria of \$1 a day as a poverty threshold. Since then, it has been reviewed to include inflation. In 2008 the poverty threshold has been established at \$1.25 a day. However, average inflation rates have been used that also take into account prices of luxury products. For example, soaring food prices are not reflected in adjusted poverty thresholds. Moreover, just one monetary criterion is not sufficient to measure poverty. Not taken into account are access to health and education and basic needs such as housing and water provision. Several academics claim that the World Bank underestimates poverty levels by 40 per cent and, taken into account, more realistic poverty indicators show that global poverty levels have not been reduced since the late 1970s. See Sanjay G. Reddy & Thomas W. Pogge, 2005,’ ‘How Not to Count the Poor’ (Columbia University, 29 October).
7. According to Lawrence Summers, a former World Bank chief economist and Clinton and Obama administration official, ‘the purpose of global trade policy is to ensure investment opportunities for OECD companies’ (Curtis, 2003, p. 212).
8. Soros shorted in 1997 (Thailand) \$3.5 billion and hedge fund Tiger \$2 billion (Mallaby, 2011, p. 199).
9. On East Asian stock markets, Anglo-Saxon holdings represented 19 per cent of capitalization of mutual funds in 1997 as against 49 per cent in 2006 (Lee, 2012, p. 14).
10. I agree with M. Heller’s (2009, p. 5) statement that ‘’…a capitalist world system could exist only if formal authorities of law and political administration were authorized globally and took precedence over national institutions. Enforceable international regulations governing political and economic action are not yet developed to the point where they can significantly influence the global experience of capitalism’.
11. According to Greenspan (2007, p. 365), the former chairman of the Fed, ‘a fully globalized world is one in which unfettered production, trade and

finance are driven by profit seeking and risk taking that are wholly indifferent to distance and national borders'.

12. In the wording of UNCTAD (2012, p. vii): 'Instead of adopting a long-term perspective and trying to further upgrade their production technology and the product composition of output through productivity enhancing investment and innovation, they (i.e., corporations) have increasingly relied on off-shoring production activities to low wage locations in developing and transition economies, and on seeking to reduce domestic unit labor costs through wage compression'.
13. *The Independent*, 23 January 2013.
14. *The Guardian*, 12 February 2013.
15. *World Investment Report* 2013, UNCTAD.
16. *Social Europe*, 19 February 2014.
17. Quoted in Foster, J.B. (2003). See also R.H. Haass (www.brook.edu).
18. Lecture at Trinity College, Dublin, quoted in Gindin (2002, p.1).
19. All Anglo-Saxon countries together have 25.3 per cent of the voting rights, China 3.8 per cent, India 2.34 per cent, Japan 6.23 per cent (IMF, 4 December 2012).
20. Foreigners held in 1996 16 per cent of US government debt; in 2007 34 per cent. Lenders from the rest of the world supplied, in 2007, 15 per cent of all US credit (Duncan, 2012, p. 15, p. 26).
21. In 2011, the United States had, with $473 billion, by far the largest current account deficit in the world. The United States was followed by Turkey ($76.9 billion current account surplus), Italy ($71 billion) and France ($54 billion). Countries with the largest surpluses were Germany ($202.7 billion), China ($201.7 billion) and Saudi Arabia ($158.5 billion dollars) (2011, WB data base).
22. Net private capital flows to the United States were, in 2007 + $573 billion, 2008 +$785 billion, 2009, -$144 billion, 2010 +$426 billion, 2011 -$33 billion (World Bank database).
23. In 1980 foreign-owned assets in the United States amounted to $442 billion, in 1990 $2.3 trillion, in 2000 $7.1 trillion and in 2012 $25.1 trillion (Department of Commerce).
24. *Global Financial Stability Report*, IMF, October 2014, p. 155.
25. Quoted in Varoufakis, 2013, pp. 144–45.
26. A handful of members of the European Parliament appeared to have copy-pasted amendments made by giant US-based IT companies directly into the EU's new data-protection law (*EU Observer*, 12 September 2012).
27. In 1946, Britain and the United States signed the United Kingdom–United States of America Agreement, a multilateral treaty to share signals intelligence between the two nations and Britain's Commonwealth partners, Canada, Australia and New Zealand. The treaty was such a closely guarded secret that Australia's prime minister was kept in the dark until 1973. Later, other countries, such as Germany, became third-country participants, but these have very limited access to the Echelon network.
28. *Financial Times*, 29 October 2013.
29. *De Volkskrant*, 26 January 2011.
30. *Frankfurter Allgemeine Zeitung*, 7 July 2013.
31. *EU Observer*, 22 June 2013.

32. Attribution of domain names is by a US private company (IANA) paid by the US Department of Commerce. Technical standards are attributed by two other private US agencies.
33. The International Financial Institutions never put it this way. They presume to just propagate sound economic policies. However, their policy prescriptions usually reflect dominant practices in the Anglo-Saxon economies. For example, the IMF has a core set of international standards for corporate governance that emphasize shareholders' value, as practiced in the Anglo-Saxon countries.
34. Everywhere in the world the ratings of the major US rating agencies are highly valued despite the dismal record and corrupt practices of these agencies. Often this US global oligopoly gets the official seal of approval. For example, the European Banking Authority prescribes, for the highest ratings (AA and AAA), that banks need the ratings of the three major US rating agencies. Therefore these agencies dominate the EU market. The EU market share of Moody's is 34.8 per cent, of Standard & Poor's 34.6 per cent and Fitch 17.7 per cent (*Financieele Dagblad*, 9 December 2014).
35. Conventional assets under management of the global fund management industry in the first nine months of 2012 amounted to $84.1 trillion, some 13 per cent above the pre-crisis peak (TheCityUK, 13 November 2012). Pension assets account for nearly 40 per cent of total funds, with the remainder split almost equally between mutual and insurance funds.
36. With $4.3 trillion of directly controlled assets, US-based BlackRock is the biggest private equity fund. With its trading platform, Alladin, it oversees another $11 trillion. This is equivalent to 7 per cent of all shares, bonds and loans in the whole world (*The Economist*, 7 December 2013).
37. *The Economist*, 11 May 2013.
38. Report, on the second IOSCO hedge fund survey, 2013, p. 13.
39. According to the Global Policy Forum, in 2011 only 0.6 per cent of foreign exchange could be traced to genuine international trade in goods and services. Of the rest, a minimum of 80 per cent was directly attributable to exchange rate speculation (*The Guardian*, 20 November 2013).
40. On 31 January 2015, the market capitalization of the largest stock exchanges was as follows: (1) New York Stock Exchange, $19.2 trillion, (2) NASDAQ, $6.8 trillion, (3) London Stock Exchange, $6.2 trillion, (4) Japan Exchange Group, $4.5 trillion, (5) Shanghai Stock Exchange, $4.0 trillion, (6) Hong Kong Stock Exchange, $3.3 trillion, (7) Euronext, $3.3 trillion, (8) Shenzhen Stock Exchange, $2.3 trillion, (9) TMX Group(Canada), $1.9 trillion, (10) Deutsche Borse, Frankfurt, $1.8 trillion.
41. It was 73 per cent in 2001 (BIS data).
42. The dominant players in the City of London are now foreign-owned. The London affiliates typically occupy central positions within their corporate systems, often having managerial responsibilities. Two thirds of all banks in London are foreign, nearly half of them established after 1980.
43. *Financial Times*, 30 April 2013.
44. *The Independent*, 30 May 2013.
45. Ibid.
46. *New York Times*, 8 May 2013.
47. *EU Observer*, 2 May 2013.

48. Ministry of Foreign Affairs, 2009.
49. *The Guardian*, 13 December 2013.
50. There is also a direct link between war zones, failed states and drugs production. The civil war in Colombia facilitated the drug lords that financed both sides in the conflict. Drugs trade in Latin America shifted northwards, towards Mexico, where drug lords and rivalry plunged the country into a violent crisis, with nearly 120,000 deaths during 2006–12. Apart from US banks, also US authorities are involved as they promote one drug cartel (the Sinaloa Cartel).
51. *Information Clearing House*, 12 September 2012.
52. *The Atlantic*, 4 January 2010.
53. Britain grants a 3 year 'investor' visa to foreigners who invest at least 1 million pounds in government bonds. Between Q3 2008 and Q 3 2013, 433 Russians received such a visa, more than any other nationality, while Chinese received 419 (*The Economist*, 22 March 2014).
54. *The Telegraph*, 21 April 2013.
55. *Global Research*, 13 September 2013.
56. *The Guardian*, 23 December 2013.

7 The Variety of Capitalism after the Great Financial Crisis

1. Nevertheless, during 2000–13 Japan did quite well. Average real consumption rose in Japan by 0.9 per cent, in the United States by 1.1 per cent, in the Netherlands by -–0.35 per cent and in Spain by -0.02 per cent (*Financiele Dagblad*, 20 December 2014).
2. *The Economist*, 27 September 2014.
3. A lot of the gross debt comprises debt of one government branch to another. Therefore, there is such a big difference between gross and net government debt.
4. Total debts of Japan are on a par with that of the United Kingdom; almost half of Japanese debt is government debt, about a quarter financial-sector debt.
5. Ellen Brown, *Global Research*, 5 September 2012.
6. McKinsey Global Institute (2015) p. 14, 16.
7. IMF, 2015, p. 10.
8. Reuters 26 May 2014.
9. Inward FDI stock as percentage of GDP was in The Netherlands (84per cent), the United Kingdom (63per cent), and Germany (29per cent) (OECD data, 2013).
10. For comparison, the total amount of financial derivatives was, in the Netherlands $131 billion and in Germany $403 billion; BIS, April 2013.
11. *Financial Times*, 4 March 2014.
12. In South Korea, foreign operations account for just 4.3 per cent of bank's total assets and 7.6 per cent of total earnings (*Financial Times*, 18 February 2014).
13. 92.4 per cent of all financial derivatives contracts were, end 2012, in developed capitalist countries, mostly in the United States and Western Europe (BIS data).

14. IMF, 2013b, p. 169.
15. For example, the leverage ratio of Deutsche Bank was, early 2013, 1.6 per cent, one of the lowest among the big banks from the OECD area (*Financial Times*, 5 July 2013).
16. During 1990–2007 cross-border banking flows increased tenfold. During 2000–07 80 per cent of the increase in cross-border banking flows came from Europe, related to European monetary integration (*The Economist*, 12 October 2013).
17. The assets of the shadow banking systems attained, as a percentage of GDP, in 2012 354 per cent in the United Kingdom, 166 per cent in the United States, 96 per cent in France, 72 per cent in Germany and 53 per cent in Japan (*Financial Times*, 18 June 2014).
18. *Financial Times,* 13 September 2013.
19. IMF, 2014, p. 66.
20. *Financial Times*, 12 September 2013.
21. Ibid.
22. A study of the boards of directors of the top ten global asset management firms and ten most centralized corporations found that 161 people manage $23.9 trillion in assets. Of these 161 top managers, 45 per cent are American and 16 per cent British (*Information Clearing House*, 22 September 2013.
23. Bloomberg revealed early June 2013 that currency traders with major banks have been manipulating currency rates for more than ten years (*ANP*, 12 June 2013).
24. *Financial Times*, 19 February 2014.
25. *Bloomberg*, 4 March 2013.
26. *Financial Times*, 6–7 July 2013.
27. The *Financial Times* (5 July 2013) gave the following leverage ratios for some of the largest North Atlantic banks: Goldman Sachs 3.9 per cent, Citigroup 3.6 per cent, Bank of America 3.6 per cent, JP Morgan 3.5 per cent, Morgan Stanley 2.6 per cent, HSBC 5.2 per cent, Santander 3.0 per cent, Society Generale 2.8 per cent, UBS 2.5 per cent, Deutsche Bank 1.6 per cent.
28. 40 per cent of all assets in the financial sector are in the United States at financial institutions other than banks, an extraordinarily high share compared to other OECD countries. Insurance has a 20–25 per cent share (FSB, 2012). The share of banks is around 20 per cent (compared with, for example, 60 per cent in the United Kingdom).
29. Sweden offered a $200-billion rescue package 29 October 2008 for its financial sector, consisting mainly of credit guarantees. A $2 billion 'stability fund' was founded, destined to bail out banks in trouble. In 1992 the bailout cost initially about 4 per cent of GDP, later downgraded to 0–2 per cent of GDP.
30. Lewis, 2012, p. 44.
31. *Le Monde Diplomatique*, October 2014.
32. *Bloomberg* 31 January 2011.
33. *Financial Times*, 4 March 2013.
34. *Bloomberg*, 20 February 2012.
35. *Bloomberg*, 18 November 2013.
36. While in 1970 the level of investments in the United Kingdom was more than two thirds of profits, in 2000 it was little more than half and in 2012 just 43 per cent.

37. As a report of ILO/World Bank/OECD underlined in 2014, 'Wage growth has significantly lagged behind labor productivity growth in most G–20 countries. The decline in labor's share of income in most G-20 countries over recent decades has continued in some while in others the labor share has stagnated' (quoted in *Finance and Development*, March 2015).
38. In Europe and the United States wealth inequality is twice that of income inequality, with the top 10 per cent owning 60–70 per cent of the wealth (*The Observer*, 12 April 2014).
39. According to a report from the International Labor Organization (2013), financialization is by far the largest contributor to the falling share of labor in developed economies. The report estimates that 46 per cent of labor's falling share resulted from financialization, 19 per cent from globalization, 10 per cent from technological change and 25 per cent from institutional factors.
40. Up until the 1970s, the ratio of credit to GDP in the advanced economies had been stable over the long run. Since then, an explosion of credit occurred that did not stop in 2008.
41. The IMF calculated that the implicit subsidies for too-big-to-fail banks varied, during 2011–12 from around $50 billion in the USA and around $110 billion both in Japan and the United Kingdom to more than $300 billion in the Eurozone (IMF, 2013b, p. 47).
42. *Deloitte Review*, nr. 15, 28 July 2014; 45 per cent of the $3.5 trillion cash reserves were by US companies and 14 per cent by Japanese companies (France: 7 per cent; Germany: 6 per cent; United Kingdom: 5 per cent).
43. *The Economist*, 22 February 2014.
44. In France the stock market was by early 2013 still 40 per cent lower than at its high point, while in Japan it was 35 per cent down (*The Economist*, 16 March 2013).
45. According to OECD Secretary General Angel Gurria, 'Over the 2009–14 period buying shares in companies with low capital expenditure while selling those with high capital expenditure, would have added 12 per cent to the value of a portfolio in Japan, 21 per cent in emerging countries, 47 per cent in Europe and a whopping 50 per cent in the United States' (24 June 2015, OECD).
46. *Finance Watch*, 26 March 2015 and *Bloomberg*, 5 March 2015.
47. The US Fed short-term interest rate dropped in 2013 to 0.08 per cent, that of the ECB to 0.25 per cent.
48. In the United States the destabilizing potential of derivatives has been increased by a law that allows derivatives claims to be paid first in case in a bank bankruptcy (*Information Clearing House*, 13 October 2014). Five US banks have each more than $40 trillion exposure to financial derivatives.
49. According to Adair Turner, top financial regulator in the United Kingdom, 'There is no clear evidence that the growth in the scale and complexity of the financial system in the rich developed world over the last 20 to 30 years has driven increased growth or stability, and it is possible for financial activity to extract rents from the real economy rather than to deliver economic value' (2010, quoted in Greenwood and Scharfstein, 2013).
50. Manmohan Singh, 'The (Other) Deleveraging', IMF working paper, July 2012.
51. Financial Stability Board, 2014. France, Spain and Canada have seen a series of rescue mergers since 2008 that have left more than 60 per cent of bank assets in the hands of three mega banks.

52. Financial Stability Board, 2014.
53. Ann Pettifor, *Open Democracy*, 31 August 2013.
54. Bain & Company, 2012, p. 17.
55. IMF, 2014, Chapter 3.
56. *The Telegraph*, 15 September 2013.
57. Zerohedge.com, 28 October 2013.
58. *Financial Times*, 25 November 2013.

8 Why Did Economists and Neoliberals Get It So Wrong?

1. The IMF is generally very bad at predicting crises. From 1991 to 2001, out of 134 recessions that occurred in developing countries, the IMF correctly forecast only 15, while actually predicting an increase in GDP in the other 119 recessions (Peet, 2009, p. 126). In 1997, just before the outbreak of the Asian financial crisis, the IMF concluded that South Korea was immune to turmoil in international financial markets (Mallaby, 2010, p. 210).
2. The 'market' is not a thing as assumed in mainstream economics, and the market is not an independent variable, separate from the rest of society.
3. John Kenneth Galbraith, 'Free Market Fraud', *The Progressive*, January 1999, 63.
4. There are vast market-free zones in developed capitalism, like the family, a large part of the public sector, and, last but not least, major corporations.
5. Mainstream economics also has a bias towards the United States. A sample of 76,000 papers in the world's five top economic journals, published during 1985–2005 showed more papers on the United States than on Europe, Asia, Latin America, the Middle East and Africa combined. The world's poorest countries are ignored by economics. *The American Economic Review* published, in 20 years, just one paper on India (*The Economist*, 4 January 2014).
6. In the paper 'Money Creation in the Modern Economy' (2014), the Bank of England admitted this.
7. This ignorance about the role of finance explains why the Fed did not anticipate a serious recession until the December 2008 meetings, after the economy had fully crashed and credit had dried up two months earlier (*Huffington Post*, 14 October 2014).
8. Speech to the South African Central Bank, 2 November 2012.
9. Dirk Bezemer, in the *Financial Times*, 4 November 2013.
10. *Global Research*, 21 May 2011.
11. Quoted in Wade, 2002, p. 201.

9 Reclaiming Sovereignty

1. *Financial Times*, 16 February 2015.
2. *International Herald Tribune*, 22 February 2013.
3. *International Herald Tribune*, 7 February 2013.
4. *Huffington Post*, 20 September 2012.
5. Oil prices went up from $10 a barrel in 1999 to $140 a barrel in summer 2008; during 2011–14 the oil price hovered around $108, and since then it has plunged.

6. If we put the index in 2005 at 100, price levels of energy hovered around 177 in 2014, of food around 170 and metals around 184 (IMF data). The net profits of the top 20 commodity traders during 2003–13 were $243.6 billion; for comparison, the net profits of the top 5 automotive manufacturers were $235.3 billion (*Financial Times*, 15 April 2013).
7. World Development Movement, 2011.
8. *The Guardian*, 1 April 2012.
9. *The Independent*, 24 October 2012.
10. *The Nation*, 6 December 2010.
11. About $100 billion of Iranian cash in foreign accounts has been frozen since the United States started to apply economic sanctions against the country.
12. The manipulation of the gold price is reflected in sudden offers of gold at moments when its price is going up. For example, in one minute of trading the gold price went down 2.1 per cent (*Frankfurter Allgemeine Zeitung*, 7 January 2014). In a time span of 6 minutes 37.6 tons of gold future contracts have been traded.
13. *International Clearing House*, 19 January 2014.
14. While the US trade deficit was 3.8 per cent of GDP in 2000, it hovered between 2.7 and 3.7 per cent during 2009–13 (US Department of Commerce).
15. US Department of Commerce.
16. *Social Europe*, 23 January 2013.
17. The EU parliament decided that the United States is allowed to look at EU bank accounts in the framework of the war against terror (*De Volkskrant*, 8 July 2010). EU member states, such as Romania and Poland, agreed to place US anti-missile systems on their territory, threatening Russia, without even consulting EU partners, despite a so-called EU common foreign and defense policy. According to WikiLeaks revelations, the US embassy in Brussels recommends drawing up a list of countries for 'retaliation' over opposition to genetic modification (*The Guardian*, 3 January 2011).
18. *Foreign Affairs*, November/December 2014.
19. *The Guardian*, 14 October 2013.
20. *The Guardian*, 4 November 2013.
21. *New York Times*, 10 December 2009.
22. In 2007, President Chavez of Venezuela began pushing for national control of the country's oil industry. His actions led to the abandonment of the major Orinoco projects by Exxon Mobil and ConocoPhillips. Yet, US refineries continue to import more than 1 million barrels of Venezuelan oil per day, the second largest source of US oil imports, next only to the imports from Canada. But other international companies have established themselves – notably, Russia and China. Venezuela promoted mass literacy, food security and healthcare all over the country.
23. The Union of South American Nations (Unasur, founded 2008) and ALBA (formerly the Bolivarian Alliance for the Peoples of Our America), and the Community of Latin American and Caribbean States (Celac) were founded. They explicitly exclude the United States and Canada. In 2012 Cuba assumed the presidency of Celac. The Organization of American States (OAS), which the United States used as an instrument of regional hegemony, has lost its pre-eminence.

24. For example, China is delivering a subway train for Rio de Janeiro, and Brazil is delivering commercial jets to China.
25. *Financial Times*, 18 March 2015.
26. ITAR/TASS, 11 March 2013.
27. *Financial Times*, 27 March 2013.
28. *The Guardian*, 2 April 2013.
29. In 2008, a consortium of Chinese companies was granted the rights to mining operations in Katanga in exchange for $6 billion in infrastructure investments, including the construction of two hospitals, four universities and a hydroelectric power project; the International Monetary Fund intervened and blocked the deal, arguing that the agreement violated the foreign debt relief program for so-called Highly Indebted Poor Countries nations (*Information Clearing House*, 12 March 2013).
30. *China Daily*, 28 December 2012.
31. *Financial Times*, 30 May 2013.
32. D. Rodrik, *Social Europe*, 13 January 2013.
33. *Frankfurter Allgemeine Zeitung*, 5 July 2013.
34. Regional government expenditures in China were 70 per cent of national government expenditures, while in Russia only 37 per cent (G.H. Jefferson, 'How has China's Economic Emergence Contributed to the Field of Economics', *Comparative Economic Studies*, 2008, 50, p. 170).
35. While in 2012 one fourth of credit originated in the shadow banking sector, in 2013 it was already one third (*Financial Times*, 17 January 2014). Lending by shadow banks was, late 2013, 84 per cent of Chinese GDP (*Financial Times*, 1–2 February 2014). Total credit creation amounted to more than 200 per cent of Chinese GDP; it was 110 per cent in 2002 (*Financial Times*, 29 January 2014).
36. Former US Treasury Secretary Henry Paulson complained that China 'has competitive capital markets, yet does not allow global financial institutions to compete' (*Financial Times*, 15 March 2013).
37. *Financial Times*, 16 May 2013.
38. *The Guardian*, 27 August 2013.
39. *Social Europe*, 14 February 2012.

References

Achterhuis, H. (1988) *Het rijk van de schaarste. Van Hobbes tot Foucault* (Amsterdam: Ambo).

Anderson, P. (2009) *The New Old World* (London and New York: Verso).

Arcand, J.-L., Berkes, E. and Panizza, U. (2012) Too Much Finance? IMF Working Paper 12/161.

Bain & Company (2012) *A World Awash in Money. Capital Trends through 2020.*

Battes, P. and Elshout, P. (2008) *De val van ABNAmro* (Amsterdam: Business Contact).

Bernaciak, M. (2014) 'Social Dumping and the EU Integration Process'. European Trade Union Institute, Working Paper, nr. 6.

Bezemer, D.J. (2009) '"No One Saw This Coming". Understanding Financial Crisis Through Accounting Models', University of Groningen, SOM Research Report, nr. 09002.

Boyer, R. (1997) *Contemporary Capitalism* (Cambridge: Cambridge University Press).

Braudel, F. (1990), *Beschaving, economie en kapitalisme (15de–18de eeuw) De tijd van de wereld* (Amsterdam: Uitgeverij Contact).

Brzezinski, Z. (1998) *The Grand Chessboard. America's Primacy and Its Geopolitical Imperatives* (New York: Basic Books).

Burlamaqui, L. (1999) 'The Institutional Structure of East-Asian Capitalism and Its Crisis. A Polanyian Perspective', paper presented at the annual conference of the European Association for Evolutionary Political Economy, Prague, November.

Chomsky, N. (2000) *Rogue States: The rule of force in world affairs* (London: Pluto Press).

Curtis, M. (2003) *Web of Deceit. Britain's Real Role in the World* (London: Vintage).

Deloitte (2012) *Capital Gains, Asset Loss. European Bank Deleveraging.*

Dore, R. (2000) *Stock Market Capitalism: Welfare Capitalism; Japan and Germany versus the Anglo-Saxons* (Oxford: Oxford University Press).

Duncan, R. (2012) *The New Depression: The Breakdown of the Paper Money Economy* (Singapore: John Wiley).

Duyn, J. van (2015) *Uit balans. Hoe de Nederlandse economie in het ongerede raakte* (Amsterdam: De Bezige Bij).

Epstein, G.A. (2006) *Financialization and the World Economy* (Cheltenham: Edward Elgar).

Ferguson, N. (2008) *The Ascent of Money: A Financial History of the World* (London: Penguin Books).

Foster, J.B. (2003) 'The New Age of Imperialism', *Monthly Review,* Vol. 55, nr. 3, July/August.

Foster, J.B. (2015) 'The New Imperialism of Globalized Monopoly Finance-Capital' *Monthly Review*, July-August, Vol. 67, nr. 3.

Foster, J.B.and McChesney, R. (2012) *The Endless Crisis* (New York, Monthly Review Press).

Foster, J.B. Robert W. McChesney, R.W. and Janis Jonna, R. (2011) 'Monopoly and Competition in Twenty-First Century Capitalism', *Monthly Review*, November.

Freeland, C. (2013) *Plutocrats: The Rise of the New Global Superrich and the Fall of Everyone Else* (London: Penguin Books).

Gindin, R. (2001) *Global Political Economy,* (Princeton, Princeton University Press).

Gray, J. (1998) *False Dawn. The Delusion of Global Capitalism* (London: Granta Books).

Greenspan, A. (2007) *The Age of Turbulence*: *Adventures in a new world* (New York: Penguin Press).

Greenwood, R. and Scharfstein, D. (2013) 'The Growth of Finance', *Journal of Economic Perspectives* Vol. 27, nr. 2, Spring.

Häring, N. and Douglas, N. (2012*) Economists and the Powerful* (London and New York: Anthem Press).

Hayek, F. (1939) 'The Economic Conditions of Interstate Federalism', in *Individualism and Economic Order*, (Chicago: Chicago University Press) 1980 pp. 255–72.

Heller, M.G. (2009) *Capitalism, Institutions and Economic Development* (London: Routledge).

Hoepner, M. and Schaefer, A. (2012) 'Integration among Unequals. How the heterogeneity of European varieties of capitalism shapes the social and democratic potential of the European Union'. *MPIfG Discussion Paper*, 1215, Max Planck Institute, July.

Hutton, W. (2002), *The World We're In* (London: Abacus).

Igan, D., Tressel, T. and Mishra, P. (2009) 'A Fistful of Dollars: Lobbying and the Financial Crisis' *IMF Working Paper* 09/287.

ILO (2013) *Global Wage Report, 2012–13* Geneva.

IMF (2013a) *World Economic Outlook* (Washington, DC: IMF) April.

IMF (2013b) *Global Financial Stability Report* (Washington, DC: IMF) April.

IMF (2014) *Global Financial Stability Report* (Washington, DC: IMF) March.

IMF(2015) *Global Financial Stability Report* (Washington, DC: IMF) April.

Johnson, S. and Kwak, J. (2010) *13 Bankers. The Wall Street Takeover* (New York: Pantheon).

Kelly, M. (2001) *The Divine Rights of Capital,* (San Francisco: Berrett-Koehler Publishers).

Klein, N. (2007) *The Shock Doctrine, the Rise of Disaster Capitalism* (London: Allen Lane).

Kleinknecht, A. (2009) 'Flexible labour markets: Good for jobs, bad for innovation?' Beitrag zur gemeinsamen Tagung des Arbeitskreises Politische Ökonomie und der Keynes-Gesellschaft: 9–11 Oktober 2009 in Karlsruhe.

KPGM (1999) *Unlocking Shareholders Value: The keys to success* (London).

Krippner, G.R. (2005) 'The financialization of the American economy' *Socio-Economic Review*, 3, pp. 173–208.

Krippner, G. (2011) *Capitalizing on Crisis* (Boston: Harvard University Press).

Kumhof, M., Lebarz, C., Ranciere, R., Richter, A.L. and Throckmorton N.A. (2012) 'Income Inequality and Current Account Imbalances' *IMF Working Paper* (12/08) (Washington, DC: IMF).

Lanchaster, J. (2010) *De Kapitale Crisis. De ondergang van de wereldeconomie* (Amsterdam: Prometheus).
Lane, P. (2012) 'Financial Globalisation and the Crisis' *BIS working paper* nr. 37, December.
Lapavitsas, C. (2012) *Crisis in the Eurozone* (London: Verso Books).
Lazonick, W. (2010) 'Innovative business models and varieties of capitalism: financialization of the US corporation', *Business History Review*, 84 (Winter), pp. 675–702.
Lee, Ji-Yong, (2012) 'Financialization and transformation of the East Asian economies', *IIPPE Financialization Working Papers*, nr. 12, October.
Lehndorff, S. (ed.) (2012) *A Triumph of Failed Ideas. European Models of Capitalism in the Crisis* (Brussels: European Trade Union Institute).
Lewis, M. (2012) *Boomerang. Wake up call voor de Westerse wereld* (Amsterdam and Antwerp: Uitgeverij Business Contact)
Lewis, M. (2014) *Flitshandel* (Amsterdam: Carrera).
Mallaby, S. (2011) *More Money than God. Hedge Funds and the Making of the New Elite* (London: Bloomsbury Publishing).
Martin, F. (2013) *Geld, de ongeautoriseerde biografie* (Amsterdam and Antwerp: Business Contact).
Marx, K. (1909) *Capital*, Vol. III (Chicago: Charles H. Kerr).
Mauldin, J. and Tepper, J. (2011) *Endgame, the End of the Debt Supercycle and How It Changes Everything* (Hoboken: John Wiley and Sons).
Mazzucato, M. (2013) *The Entrepreneurial State: Debunking Public vs. Private Sector Myths* (London and New York: Anthem).
McKinsey Global Institute (2012a) *Debt and Deleveraging: Uneven Progress on the Path to Growth* January.
McKinsey&Company (2012b) *The Triple Transformation: Achieving a Sustainable Business Model*, 2nd Annual Report on the Banking Industry, McKinsey&Company.
McKinsey Global Institute (2013a) *Financial globalization: Retreat or reset. Global Capital Markets 2013*
McKinsey Global Institute (2013b) *QE and ultra-low interest rates: Distributional effects and risks,* November.
McKinsey Global Institute (2015) *Debt and (not much) deleveraging,* February.
Ministry of Foreign Affairs Norway (2009) *Tax Havens and Development* (Olso).
Mirovski, P. (2014) *Never Let a Serious Crisis Go to Waste* (London: Verso).
Mugge, D. (2005) 'Diluting varieties of capitalism from below: Competitive imperatives in financial markets and the end of positive coordination' Contribution 3rd ECPR Conference, Budapest, September 8–11.
OECD 2015 *In It Together: Why Less Inequality Benefits All* (Paris: OECD)
Orhangazi, O. (2008) 'Financialisation and capital accumulation in the non-financial corporate sector: A theoretical and empirical investigation on the US economy: 1973–2003' *Cambridge Journal of Economics*, 2008, 32, 863–86.
Panitch, L. and Gindin, S. (2012) *The Making of Global Capitalism: The Political Economy of American Empire* (London and New York: Verso).
Peet, R. (2009) *Unholy Trinity: The IMF, World Bank and WTO* (London and New York: Zed Press).
——— (2013) *Geography of Power: The Making of Global Economic Policy* (London and New York: Zed Press).

Piketty, T. (2014) *Capital in the 21st Century* (Cambridge, MA, and London: Harvard University Press).
Polanyi, K. (1957) *The Great Transformation – the political and economic origins of our time* (Boston: Beacon Press).
Roberts, P.C. (2013) *The Failure of Laissez Faire Capitalism* (Atlanta: Clarity Press).
Rodrik, D. (2001) *Global Governance of Trade- As If Development Really Mattered* UN Development Programme Background Paper.
Roos, J. (2013) *Financial Empire and the Global Debtor Prison* (Roamag.org. 6 May).
Scheer, R. (2010) *The Great American Stick-up – How Reagan Republicans and Clinton Democrats Enriched Wall Street While Mugging Main Street* (New York: Nation Books).
Schlesinger, A.M. Jr (1999) *The Cycles of American History* (New York: Mariner Books).
Schumpeter, J.A. (1947) *Capitalism, Socialism and Democracy* (London: George Allen & Unwin).
Shaxton, N. (2011) *Treasure Islands. Tax havens and the men who stole the world* (London: The Bodley Head).
Soros, G. (2002) *On Globalization* (Oxford: Public Affairs).
Stiglitz, J. (2002) *Globalization and Its Discontents* (London: Penguin Books).
Stockhammer, E. (2010) 'Financialization and the Global Economy', Political Economy Research Institute, number 240 (Amherst: University of Massachusetts).
Strange, S. (1996) *The Diffusion of Power in the World Economy. The retreat of the state* (Cambridge: Cambridge University Press).
Streeck, W. (2010) E Pluribus Unum? Varieties and Communalities of Capitalism, *MPifG Discussion Paper*, 10/12.
Streeck, W. (2011) The Crisis in Context. Democratic Capitalism and its Contradictions, *MPifG Discussion Paper*, 11/15.
Streeck, W. (2014a) *Buying Time. The Delayed Crisis of Democratic Capitalism* (London and New York: Verso).
Streeck, W. (2014b) 'How Will Capitalism End?', *New Left Review*, nr. 87, May–June.
Treeck, T. van (2008) 'The political economy debate on "financialisation" in a macro-economic perspective', *IMK Working Paper*, 01/2008.
Turner, A. (2001) *Just Capital. The Liberal Economy* (London: Pan Books/ MacMillan).
UNCTAD (2012) *World Investment Report* (unctad.org).
Varoufakis, Y. (2013) *The Global Minotaur: America, Europe and the Future of the Global Economy* (London/New York Zed Books).
Vitali, S., Glattfelder, J.B. and Battiston, S. (2011) 'The network of global corporate control' *PLOS One,* 26 October.
Wade, R.H. (2002) 'US Hegemony and the World Bank: the fight over people and ideas', *Review of International Political Economy*, 9: 2, pp. 201–29.
Wainwright, H. (2014) *The Tragedy of the Private, the Potential of the Commons* (Amsterdam: Trans National Institute, Public Services International).
World Bank (2009) *Improving Food Security in Arab Countries* (Washington, DC: World Bank).

Index

Note: Numbers in bold refer to in depth treatment of subject matter