I. Capitalism and global integration

1. The three recent epochs of capitalism

(1) The Belle Epoch (1880-1914): the first era of global financial capitalism; (2) the Golden Age (1945-1975) of capitalism; (3) the Neoliberal Era (1980-2017): the second era of global financial capitalism. The Belle Epoch, the product of the cumulative development of capitalism, collapsed: two world wars with a Great Depression in between. By comparing the Belle Epoch with the Neoliberal Era, Thomas Piketty (2014) anticipates the persistence of a low-growth regime and a traumatic end to the Neoliberal Era (global wars and economic crises), unless there is a global political peaceful reorganization that stops the forces that, through the progressive accumulation of capital in fewer hands, is exacerbating class conflict. As in the Golden Age, an interventionist welfare state (at a global scale) is the needed counterbalancing force, to temper the forces of global financialization, even at the price of sacrificing economic growth.

Piketty, Thomas (2014): *Capital in the twenty-first century*, Belknap Press, Cambridge, MA.

2. Short history of modern capitalism

"Liberal capitalism in the nineteenth century was confronted by a revolutionary labour movement that needed to be politically tamed by a complex combination of repression and co-optation, including democratic power sharing and social reform. In the early twentieth century, capitalism was commandeered to serve national interests in international wars (…) After the First World War, restoration of a liberal-capitalist economy failed to produce a viable social order and had to give way in large parts of the industrial world to either Communism or Fascism, while in the core countries of what was to become 'the West' liberal capitalism was gradually succeeded, in the aftermath of the Great Depression, by Keynesian, state-administered capitalism. Out of this grew the democratic welfare-state capitalism of the three post-war decades, with hindsight the only period in which economic growth and social and political stability, achieved through democracy, coexisted under capitalism (…) In the 1970s, however, what had with hindsight been called the 'post-war settlement' of social-democratic capitalism began to disintegrate, gradually and imperceptibly at first but increasingly punctuated by successive, ever more severe crises of both the capitalist economy and the social and political institutions embedding, that is, supporting as well as containing it. This was the period of both intensifying crisis and deep transformation when 'late capitalism', as impressively described by Werner Sombart in the 1920s, gave way to neoliberalism."

Streeck, Wolfgang (2016): *How will capitalism end? Essays on a failing system*, Verso, New York.

3. Escape routes from capitalist crises

"Technological displacement is the mechanism by which innovations in equipment and organization save labor, thereby enabling fewer employed persons to produce more at lower cost. Marx and Engels argued that capitalists strive to increase profit in competition with each other; those who fail to do so are driven out of the market. But as labor-saving machinery replaces workers, unemployment grows and consumer demand falls. Technology promises abundance, but the potential product cannot be sold because too few persons have enough income to buy it. Extrapolating this underlying structural tendency, Marx and Engels predicted the downfall of capitalism and its replacement by socialism. Why has this not happened in the 160 years since the theory was formulated?"

"Marx and Engels focused on the displacement of working-class labor; they did not foresee the rise of the massive middle class of white-collar employees, of administrative and clerical workers and educated professionals (…) Until the 1980s or 1990s, mechanization chiefly displaced manual labor. In the most recent wave of technology, we now have the displacement of administrative labor, the downsizing of the middle class. Information technology is the technology of communications, and it has launched the second great era of contraction of work, the displacement of communicative labor, which is what middle-class employees do. Mechanization is now joined by robotization and electronicization (…) As the working class shrunk through mechanization, capitalism was saved by the rise of the middle class. Now computerization, the Internet, and the wave of new micro-electronic devices are beginning to squeeze out the middle class. Can capitalism survive this second wave of technological displacement?"

"In the past, capitalism has escaped from technological displacement crises by five main escape routes. I will argue that all five of these now are becoming blocked—dead ends."

- **Escape 1: “New technology creates new jobs and entire new job sectors.”** “Computerization of the middle class is not being compensated by the creation of new jobs at an equal rate. New jobs are created, but they do not match the number of jobs eliminated, nor do they replace lost income (…) In an advanced economy such as the United States, jobs in the service sector have grown to about 75% of the labor force, a result of the decline in industrial and agricultural/extractive occupations (…) But the service sector is becoming squeezed by the IT economy.”
- **Escape 2: “Geographical spread of markets.”** “We tend to think of market spread as globalization, but globalization is only a quantitative difference in degree, not a qualitative difference in kind. Even within the confi nes of state borders, markets have grown by spreading to regions where a product was initially unknown (…) The liberal version of this mechanism, on the global or interstate scale, is modernization theory or development theory; each part of the world successively ascends the stages, until presumably all will be fully developed, tertiary-sector service economies (…) The Neo-Marxist version of this process is World-System theory (…) This is a less benign version of the geographical spread of capitalist markets; world market domination is buttressed by military power and political infl uence; the hegemonic center exploits the labor or raw materials of the periphery, with the aid of a transmission belt of semiperipheral regions. World-system theory complicates the pattern by a succession of hegemonies marked by major wars, and keyed to long Kondratieff waves of relative expansion and stagnation in world markets. But these cycles of serial hegemons—Spain, Holland, Britain, the United States, conjecturally China—logically come to an end when the periphery is exhausted, and every region of the globe is fully brought into the capitalist market. There are no more safety-valves, no more regions for exploitation; capitalist profit dries up.”
- **Escape 3: “Meta-markets in finance.”** “If working-class and then middle-class labor are technologically displaced, can the slack be taken up by everyone becoming a capitalist? (…) Recent financial manipulations are examples of a deeper structural tendency in capitalism: the pyramiding of meta-markets upon each other in financial markets (…) the historical tendency for any given financial market to give rise to a higher-order market in lower-order financial instruments (…) The more pyramided financial meta-markets are, the more volatile and crisis-prone they are, with booms and busts far out of proportion to what is happening in the low-level material economy (…) But is it conceivable that in the future when everything is automated that entire populations will spend their lives as financial investors, a reserve army of gamblers in lifelong casinos? (…) Financial markets are intrinsically inegalitarian, concentrating wealth in the small number of big players at the top of the pyramid.”
- **Escape 4: “Government employment and investment.”** “Unrestricted free-market capitalism, left to itself, has no way of heading off such crisis (…) The pro-welfare state forces in principle may have a solution to unemployment, but they run up against the budgetary problems of the state. A state which funds an expensive welfare state opens itself up to the pressure of financial markets, risking destruction of the purchasing power of its currency.”
- **Escape 5: “Educational credential inflation.”** “Credential inflation is the rise in educational requirements for jobs as a rising proportion of the population attains more advanced degrees. Th e value of a given educational certificate or diploma declines as more people have one, thereby motivating them to stay in school longer (…) The more persons who hold advanced degrees, the more competition among them for jobs, and the higher the educational requirements that can be demanded by employers. This leads to renewed seeking of more education, more competition, and more credential inflation. Within this overall inflationary process, the most highly educated segment of the population has received an increasingly greater proportion of the income (…) Although educational credential inflation expands on false premises—the ideology that more education will produce more equality of opportunity, more high-tech economic performance, and more good jobs—it does provide some degree of solution to technological displacement of the middle class. Educational credential inflation helps absorb surplus labor by keeping more people out of the labor force (…) Of the five escape routes from capitalist crisis, continued educational infl ation seems to me the most plausible (…) It is conceivable that liberal governments might find their way to keep expanding educational systems, using them as a Keynesian safety valve, and a form of transfer payments from the capitalists and the diminishing sector of the employed, to sustain the otherwise unemployed. But to get such a government might well take a near-revolutionary disillusionment with capitalism.”

Collins, Randall (2013): “The end of middle-class work: No more escapes”, chapter 2 in .

4. Systemic disorders of contemporary capitalism (Wolfgang Streeck, 2016)

"Capitalism without opposition is left to its own devices, which do not include self-restraint. The capitalist pursuit of profit is open-ended, and cannot be otherwise."

- **Disorder 1: Stagnation.** "As Keynes would have known, concentration of income at the top must detract from effective demand and make capital owners look for speculative profit opportunities outside the 'real economy'. This may in fact have been one of the causes of the 'financialization' of capitalism that began in the 1980s. The power elites of global capitalism would seem to be resigning themselves to low or no growth on aggregate for the foreseeable future (…) The scenario of 'stagnation with a chance of bubbles' may most plausibly be imagined as a battle of all against all, punctured by occasional panics and with the playing of endgames becoming a popular pastime."
- **Disorder 2: Oligarchic redistribution.** "There is no indication that the long-term trend towards greater economic inequality will be broken any time soon, or indeed ever. Inequality depresses growth (…) But the easy money currently provided by central banks to restore growth – easy for capital but not, of course, for labour – further adds to inequality, by blowing up the financial sector and inviting speculative rather than productive investment. Redistribution to the top thus becomes oligarchic: rather than serving a collective interest in economic progress, as promised by neoclassical economics, it turns into extraction of resources from increasingly impoverished, declining societies (…) Under oligarchic redistribution, the Keynesian bond which tied the profits of the rich to the wages of the poor is severed, cutting the fate of economic elites loose from that of the masses."
- **Disorder 3: "Plundering of the public domain through underfunding and privatization."** "Foremost among the causes of this shift were the new opportunities offered by global capital markets since the 1980s for tax flight, tax evasion, tax-regime shopping and the extortion of tax cuts from governments by corporations and earners of high incomes. Attempts to close public deficits relied almost exclusively on cuts in government spending – both to social security and to investment in physical infrastructures and human capital. As income gains accrued increasingly to the top 1 per cent, the public domain of capitalist economies shrank, often dramatically, starved in favour of internationally mobile oligarchic wealth. Part of the process was privatization, carried out regardless of the contribution public investment in productivity and social cohesion might have made to economic growth and social equity."

"What may be surfacing here is the fundamental tension described by Marx between, on the one hand, the increasingly social nature of production in an advanced economy and society, and private ownership of the means of production on the other. As productivity growth requires more public provision, it tends to become incompatible with private accumulation of profits, forcing capitalist elites to choose between the two. The result is what we are seeing already today: economic stagnation combined with oligarchic redistribution."

- **Disorder 4: Corruption.** "Fraud and corruption have forever been companions of capitalism. But there are good reasons to believe that with the rise of the financial sector to economic dominance, they have become (…) pervasive (…) Finance is an 'industry' where innovation is hard to distinguish from rule-bending or rule-breaking; where the pay-offs from semi-legal and illegal activities are particularly high; where the gradient in expertise and pay between firms and regulatory authorities is extreme; where revolving doors between the two offer unending possibilities for subtle and not-so-subtle corruption; where the largest firms are not just too big to fail, but also too big to jail, given their importance for national economic policy and tax revenue; and where the borderline between private companies and the state is more blurred than anywhere else."
- **Disorder 5: Global anarchy.** "Global capitalism needs a centre to secure its periphery and provide it with a credible monetary regime. Until the 1920s, this role was performed by Britain, and from 1945 until the 1970s by the United States (…) Stable relations between the currencies of the countries participating in the capitalist world economy are essential for trade and capital flows across national borders, which are in turn essential for capital accumulation; they need to be underwritten by a global banker of last resort. An effective centre is also required to support regimes on the periphery willing to condone the low-price extraction of raw materials. Moreover, local collaboration is needed to hold down traditionalist opposition to capitalist *Landnahme* outside the developed world. Contemporary capitalism increasingly suffers from global anarchy, as the United States is no longer able to serve in its post-war role, and a multipolar world order is nowhere on the horizon."

"Capitalism, as a social order held together by a promise of boundless collective progress, is in critical condition. Growth is giving way to secular stagnation; what economic progress remains is less and less shared; and confidence in the capitalist money economy is leveraged on a rising mountain of promises that are ever less likely to be kept. Since the 1970s, the capitalist centre has undergone three successive crises, of inflation, public finances and private debt (…) What is to be expected (…) is a long and painful period of cumulative decay: of intensifying frictions, of fragility and uncertainty, and of a steady succession of 'normal accidents' – not necessarily but quite possibly on the scale of the global breakdown of the 1930s."

Streeck, Wolfgang (2016): *How will capitalism end? Essays on a failing system*, Verso, New York.

5. The global stage of capitalism

"Social change is the restructuring of human social institutions: culture, consciousness, technology, organizations, settlement systems, forms of exchange, and structures of authority and decision-making. It is commonly observed that some aspects of human social change, especially those connected with technology, have greatly accelerated over the past few centuries (…) Today, in addition to studying social change in a global context, social scientists study globalization itself as an important form of social change."

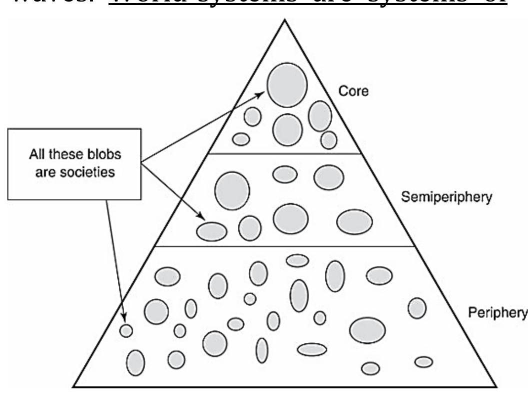
"A global phenomenon is defined as 'one that represents a single, interacting system on a global scale that does not respect international borders.' The physical science archetype of a global phenomenon is the atmosphere; in the sphere of social science, markets, information, and pop culture are all examples of global phenomena (…) The clearest example of a kind of social change that can be studied only at a global level of analysis is the process of globalization itself."

"A profit squeeze and accumulation crisis occurred in the 1970s when Japan and Germany caught up with the United States in the production of important core commodities (…) The reactionary response to the accumulation crisis (…) was Reaganism-Thatcherism, also called the 'Washington Consensus' and the 'globalization project.' This response was a revival of the nineteenth-century ideology of 'market magic' and an attack on the welfare state and organized labor. It borrowed the antistatist ideology of the New Left and used new communications and information technologies to globalize capitalist production, undercutting nationally organized trade unions and attacking the entitlements of the welfare state as undeserved and inefficient rents. This 'global stage of capitalism' is what has brought globalization into the popular consciousness, but rather than being the first time that the world has experienced strong global processes, it is a response to the problems of capitalist accumulation as they emerged from the prior Global New Deal, which was itself a response to the earlier Age of Extremes and deglobalization."

Chase-Dunn, Christopher; Salvatore J. Babones; eds. (2006): *Global social change: Historical and comparative perspectives*, The Johns Hopkins University Press, Baltimore, Maryland.

6. The modern world-system: core, periphery and semiperiphery

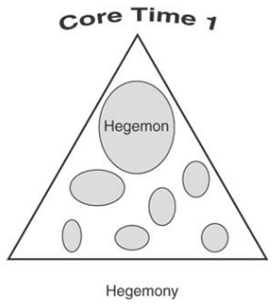
"The comparative world-systems perspective is a strategy for explaining social change that focuses on whole intersocietal systems rather than single societies. The main insight is that important interaction networks (trade, information flows, alliances, and fighting) have woven polities and cultures together since the beginning of human social evolution. Explanations of social change need to take intersocietal systems (world-systems) as the units that evolve. But intersocietal interaction networks were rather small when transportation was mainly a matter of hiking with a pack. Globalization, in the sense of the expansion and intensification of larger interaction networks, has been increasing for millennia, albeit unevenly and in waves. World-systems are systems of societies. Systemness means that these societies are interacting with one another in important ways."

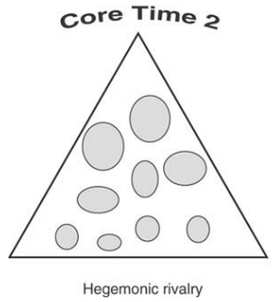


"The modern world-system is structured politically as an interstate system—a system of competing and allying states (…) The modern world-system is also importantly structured as a core-periphery hierarchy in which some regions contain economically and militarily powerful states while other regions contain polities that are much less powerful and less developed. The countries that are called 'advanced' (…) The modern core includes the United States, the European countries, Japan, Australia, and Canada. In the contemporary periphery we have relatively weak states that are not strongly supported by the populations within them and have little power relative to other states in the system."

"The core-periphery hierarchy in the modern world-system is a system of stratification in which socially structured inequalities are reproduced by the institutional features of the system (…). The periphery is not 'catching up' with the core. Rather, both core and peripheral regions are developing, but most core states are staying well ahead of most peripheral states. There is also a stratum of countries that we call the semiperiphery: countries that are in between the core and the periphery."

"So the modern world-system is now a global economy with a global political system (the interstate system). (…) Culturally the modern system is composed of several civilizational traditions (e.g., Islam, Christendom, Hinduism), nationally defined cultural entities—nations (…), and the cultures of indigenous and minority ethnic groups within states. The modern system is multicultural in the sense that important political and economic interaction networks connect people who have rather different languages, religions, and other cultural aspects. Most earlier world-systems have also been multicultural."





"One of the important systemic features of the modern system is the rise and fall of hegemonic core powers—the so-called hegemonic sequence. A hegemon is a core state that has a significantly greater amount of economic power than any other state and that takes on the political role of system leader. In the seventeenth century the Dutch Republic performed the role of hegemon in the Europe-centered system, while Great Britain was the hegemon of the nineteenth century, and the United States has been the hegemon in the twentieth century. Hegemons provide leadership and order for the interstate system and the world economy. But the normal operating processes of the modern system—uneven economic development and competition among states—make it difficult for hegemons to sustain their dominant positions, and so they tend to decline. Thus the structure of the core oscillates back and forth between hegemony and a situation in which several competing core states have a roughly similar amount of power and are contending for hegemony."

Hall, Thomas D.; Christopher Chase-Dunn (2006), chapter 3 in Chase-Dunn, Christopher; Salvatore J. Babones; eds. (2006): *Global social change. Historical and comparative perspectives*, The Johns Hopkins University Press, Baltimore, Maryland.

The Problems of Progress

In general, what we call "progress" can lead to abuse of the natural environment, the burden of learning new jobs, and general disorientation due to change itself: Examples of other negative consequences of "progress":

Better machines →	Displaced workers, loss of status
Growing wealth →	Increase in rich/poor disparity, fewer workers for less-desired tasks
New products →	Difficulty of making choices
More, better food →	Obesity, clogged arteries
Better health care →	Rising costs, higher expectations
Longer lives →	Cost of supporting idle elderly, increase in disability, stress on natural resources
Saving newborn →	More birth defects
Better transport →	Decline of local communities
More TV programs →	Inactivity, desocialization
Increasing comfort →	Boredom, apathy
Portable telephones →	Forced exposure to noxious chatter
Easy bill paying →	Credit-card fraud, identity theft
Quick information →	Internet hoaxes, scams, viruses
Cheap, easy messaging →	Junk e-mail, insensitive comments

7. The growth imperative/trap (Douglas Rushkoff, 2016)

"Plants grow, people grow, even whole forests, jungles, and coral reefs grow—but eventually, they stop. This doesn't mean they're dead. They've simply reached a level of maturity where health is no longer about getting bigger but about sustaining vitality. There may be a turnover of cells, organisms, and even entire species, but the whole system learns to maintain itself over time, without the obligation to grow. Companies deserve to work this way as well. They should be allowed to get to an appropriate size and then stay there, or even get smaller if the marketplace changes for a while. But in the current business landscape, that's just not permitted. Corporations in particular are duty bound to grow by any means necessary. For Coke, Pepsi, Exxon, and Citibank, there's no such thing as "big enough"; every aspect of their operations is geared toward meeting new growth targets perpetually. That's because, like a shark that must move in order to breathe, corporations must grow in order to survive (...) A corporation is just a set of rules, and so is software. It's all code, and it doesn't care about people, our priorities, or our future unless we bother to program those concerns into it."

"The corporation has no choice other than to exercise the four sides of its original tetrad: extract value, squash local peer-to-peer markets, expand the empire, and seek personhood—all in order to grow pots of money, or capital. The most successful and most loathed corporations of the last century all work this way. Walmart, for one ready example, lives by the tetrad. It extracts value from local communities, replacing their peer-to-peer economies with a single, one-way distribution point for foreign goods. Workers are paid less than they earned in their previous jobs or businesses and are often limited to part-time employment so the company can externalize the cost of health care and other benefits to local government (...) When it moves into a new region, it undercuts the prices of local merchants—often taking a loss on sales of locally available goods simply to put smaller merchants out of business (...) Walmart retrieves the values of empire, where expansion is the primary aim. It has opened as many as one store a day in the United States alone.7 The company sometimes opens two stores, ten or twenty miles apart in a new region, and keeps them both open until local merchants go out of business and new consumer patterns are established. Then it closes the less popular store, forcing those consumers to travel to the other one (...) Finally, in its flip toward personhood, Walmart has attempted to accomplish all this with a human face—quite literally. The company adopted a version of the iconic 1970s yellow smiley face as a brand personality (...) Walmart's motto went from the utilitarian and immortal 'Always Low Prices' to the much more humanistic 'Save Money. Live Better.'"

Economy types	ARTISANAL 1000–1300	INDUSTRIAL 1300–1990	DIGITAL INDUSTRIALISM 1990–2015	DIGITAL DISTRIBUTISM 2015–
Direction	•	↗	⤴	⟳
Purpose	Subsistence	Growth	Exponential growth	Sustainable prosperity
Company	Family business	Chartered monopoly/ corporation	Platform monopoly (Amazon, Uber)	Platform cooperative (Mondragon, La'Zooz)
Currency	Market money (support trade)	Central currency (support banks)	Derivative instruments (leverage debt)	Bitcoin and P2P (promote circulation)
Investment	Direct investment	Stock markets	Algorithms	Crowdfunding
Production	Handmade (manuscript)	Mass-produced (printed book)	Replicable (file)	Collaborative (wiki)
Marketing	Human face	Brand icon	Big data (prediction)	Utility, legacy (product attributes, company ethics)
Communications	Personal contact	Mass media	Apps	Networks
Land & resources	Church commons	Colonization	Privatization	Public commons
Wages	Paid for value (craftsperson)	Paid for time (employee)	Not paid/underpaid (independent contractor)	Value exchanged (community member)
Scale	Local	National	Global	Strategically bounded
Optimized for	Creation of value	Extraction of value	Destruction of value	Exchange of value

Rushkoff, Douglas (2016): *Throwing rocks at the Google bus. How growth became the enemy of prosperity*, Portfolio/Penguin.

8. Unstable world, stable delusions (Chris Harman, 2010)

"We live in an unstable world, and the instability is going to increase. It is a world where a billion people feel hungry every day, and the hunger is going to increase. It is a world which is destroying its own environment, and the destruction is going to increase. It is a violent world, and the violence is going to increase. It is a world where people are less happy, even in the industrially advanced countries, than they used to be, and the unhappiness is going to increase."

"The moment any part of the global economy begins to stabilise they will forget the hundreds of millions of lives that have been shattered by the crisis. A few months when banks are not collapsing and profits are not falling through the floor and the apologists will be pumping out candyfloss once again. Their futures will seem better and they will generalise this to the world at large with renewed talk about the wonders of capitalism and the impossibility of any alternative –until crisis hits again and throws them into another panic."

"Capitalism transforms society in its entirety as its sucks people by the billions into labouring for it. It changes the whole pattern by which humanity lives, remoulding human nature itself. It gives a new character to old oppressions and throws up completely new ones. It creates drives to war and ecological destruction. It seems to act like a force of nature, creating chaos and devastation on a scale much greater than any earthquake, hurricane or tsunami. Yet the system is not a product of nature, but of human activity, human activity that has somehow escaped from human control and taken on a life of its own."

Harman, Chris (2010): *Zombie capitalism. Global crisis and the relevance of Marx*, Haymarket Books, Chicago, Illinois.

9. How capitalism ends (Alan Nasser, 2018, pp. 225-226)

"The evidence indicates that American capitalism, and, by implication, every industrially mature capitalist society, reaches a critical developmental stage. At that point the kind of real-economic growth that brings secure employment and living standards to the majority, much less to every working household, slows down. What comes to predominate is financialized growth, where such economic growth as there is is sustained by bubbles, which bring with them working-class austerity and precarity, social dislocation and a resulting repressive State. It is increasingly clear that *capitalism and democracy are incompatible*. There emerges the need for economic and political democracy. Economic democracy has never existed under capitalism and political democracy is in conspicuous decline. Some form of socialist democracy is the order of the epoch."

Nasser, Alan (2018): *Overripe economy: American capitalism and the crisis of democracy*, Pluto Press, London.

10. A cure for capitalism (Richard Wolff, 2012)

"… moving beyond the internal organization of capitalist enterprises toward a specific, democratic alternative organization of production is the way forward now. Not only does a transition to worker-directed enterprises offer better prospects for preventing future crises, it also entails solutions for a host of related problems that have long defined capitalist societies."

Wolff, Richard (2012): *Democracy at work. A cure for capitalism*, Haymarket Books, Chicago.

11. Capitalism does not imply democratization

Political authoritarianism has survived in an age of capitalist globalization in part because it has presented itself as guarantor of domestic and international marketization. It is claimed that an oppressive state is needed to conduct the unpopular policies required to response the shock that respresents economic liberalization. Globalization appears to strengthen dictatorial regimes and the illiberal policies pursued by democracies. The paradox is that "the more economically liberal a country becomes, the greater its reliance on authoritarianism seems to be across contexts" (Bloom, 2016).

Bloom, Peter (2016): *Authoritarian capitalism in the age of globalization*, Edward Elgar, Cheltenham, UK.

Kupchan, Charles (2012): *No one's world. The West, the Rising Rest, and the coming global turn*, Oxford University Press, New York.

12. Yates' (2016, p. 47) dilemma

"It is impossible to create a society that is both just and capitalist." According to Yates, in a capitalist economy, capital rules: the system works by creating a few winners and many losers, poles of wealth and poverty, periods of expansion and recession, overworked employees, alienating workplaces, exploitation by the powerful, despoiled environments… "Losses are always socialized, and gains are always privatized."

Yates, Michael (2016): *The great inequality*, Routledge, New York.

13. Emergence of capitalism

"The emergence of capitalism was not a general phenomenon, but one specific to time and place. People who take the long-run-up view of the emergence of capitalism note factors like the discovery of the New World, the invention of the printing press, the use of clocks, or papal property arrangements. These were present in countries that did not change their economic ways. Logically, widely shared developments can't explain a response that was unique to one country. What the myriad theories about how the West broke with its past do have right is that there were many, many elements that went into capitalism's breakout from its traditional origins. It is also important to keep in mind that a succession is not a process. A process is a linked series of operations; a succession is open to interruption and contingency. There was nothing inevitable about the English moving from the agricultural innovations that freed up workers and capital for other uses to a globe-circling trade and on to the pioneering of machine-driven industry. It's only in retrospect that this progression seems seamlessly interconnected. But it wasn't. This appearance reflects a human tendency to believe that what happened had to happen."

"Everything that was remarkable about Portuguese and Spanish voyages got folded back into old ways. What differed in England was that a sequence of developments never stopped. And they attracted commentary, debate, and explanations. This intellectual engagement with the meaning of economic change blocked a reversion to old ways of thinking. Novel practices and astute analysis of them are what it took to overturn the wisdom of the ages. Many countries had brilliant episodes in their history; sustaining innovation through successive stages of development distinguishes England's performance."

"… the seventeenth century brought fundamental alterations to England, and contemporaries became acutely and astutely aware of them. At its beginning a venerable social order existed to keep in place established precepts, prerogatives, and regulations. A century and a half later capitalism had gained critical momentum against the regime of status, stasis, and royal control. From the risky ventures and trial-and-error methods of large and small entrepreneurs emerged successes so resounding that there was no turning back. Changes became irreversible and cumulative. Growth turned into development, not just expansion, but getting more from less. Capital would never again be scarce. Indeed, the Dutch became the financiers of Europe with the savings accumulated during their heyday as the world's greatest traders."

Appleby, Joyce Oldham (2010): *The relentless revolution. A history of capitalism*, W. W. Norton, New York.

14. Views of the emergence of capitalism

"Smith placed economic development in a long sequence of progressive steps that had evolved over time. This interpretation of the history of capitalism as moving forward effortlessly has produced the greatest irony in the history of capitalism, an explanation of its origins that makes natural what was really an astounding break with precedent. This view also depends upon people already thinking within the capitalist frame of reference. (…) Because the full elaboration of economic developments in England took place over two centuries—almost seven generations of lived experience—it was possible to imagine it as the evolutionary process that Smith described. But in continental Europe industrialization came with brutal speed (…) Karl Marx, observing this disruption in the middle decades of the nineteenth century, could not accept the English evolutionary explanation for the emergence of capitalism. He believed that coercion had been absolutely necessary in effecting this transformation. Marx traced that force to a new class of men who coalesced around their shared interest in production, particularly their need to organize laboring men and women in new work patterns."

"Max Weber, assessed the grand theories of Smith and Marx and found both of them wanting in one crucial feature: They gave attitudes to men and women that they couldn't possibly have had before capitalist practices arrived. Weber asked how the values, habits, and modes of reasoning that were essential to progressive economic advance ever rooted themselves in the soil of premodern Europe characterized by other life rhythms and a moral vocabulary different in every respect (…) Following Smith, economic analyzers presumed a natural human psychology geared to ceaseless economic activity. Weber challenged this assumption with a single line: 'A man does not by nature wish to earn more and more money, but simply to live as he is accustomed to live and to earn as much as is necessary for that purpose.' Weber began with an interesting phenomenon to explore: the convergence of economically advanced countries and the Protestant religion."

15. Capitalism

"Capitalism is a cultural system rooted in economic practices that rotate around the imperative of private investors to turn a profit."

"Capitalism has produced some enduring tensions, evident from the sixteenth century onward. Where the extremes of riches in a society of scarcity were usually tolerated, capitalism's capacity to generate wealth made salient, and hence open to criticism, inequalities in the distribution of economic and political power. Similarly, government interference was acceptable when the society was at risk of starving, but no longer so when the system seemed to function better when its participants had the most freedom. This very lack of government regulation in market economies enhanced chances for cycles of boom and bus."

"Nor is greed the only thing that people hold against capitalism. I've made a little list, and it includes such charges as responding to short-term opportunities to the neglect of long-term effects, dispensing power without responsibility, promoting material values over spiritual ones, commoditizing human relations, monetizing social values, corrupting democracy, unsettling old communities, institutions, and arrangements, and rewarding aggressiveness and—yes—greed. Two other capitalist responsibilities have cast long shadows forward: intractable poverty and a deteriorating environment (…) Capitalism's voracious appetite for natural resources, especially oil, has led to the unthinkable: human beings making the atmosphere of their planet permanently inhospitable."

"Capitalism is not a unified, coordinated system, despite that suggestion in the word 'system.' Rather it is a set of practices and institutions that permit billions of people to pursue their economic interests in the marketplace. There is no monolithic international corporate power, but many diverse players in the world market with, yes, a wide disparity in the influence that each wields (…) Capitalism's history suggests that democracy and capitalism might be decoupled because they generate values that are often in conflict. Democracy means majority rule with regular, contested elections; American and European democracies include the protection of civil and personal rights. Capitalism refers to investments in productive processes that may or may not rely on politically empowered participants. Capitalism is amoral while democracy is suffused with moral concerns about the well-being of the whole and the rectitude of leaders. Since capitalist growth depends upon innovation, and innovation upsets the status quo, the free market system regularly creates social problems that the government must address. 'We, the people' then jars against 'I, the individual.'"

"James Madison (…) warned that the concentration of power in one branch of government is tantamount to despotism. The whole structure of the U.S. Constitution involves a balance of powers with additional checks on abuses (…). The danger of concentration is even greater if the two leviathans in our lives—the government and the economy—read off the same profit sheet. When government works hand in glove with the nation's businessmen, you can be sure that the market's own corrective mechanism will be disabled. Competition will then be muted, cronyism rampant, and inefficiency protected."

"Schumpeter raised the possibility that capitalism was doomed because of its tendency to destroy the institutions that protect it (…) But Schumpeter failed to take into account the different experiences market participants draw upon when making decisions (…) People do learn from their mistakes. There is no reason to think that societies won't continue to modify and monitor their economies in pursuit of shared goals."

Appleby, Joyce Oldham (2010): *The relentless revolution: A history of capitalism*, W. W. Norton, New York.

16. Underconsumption theories

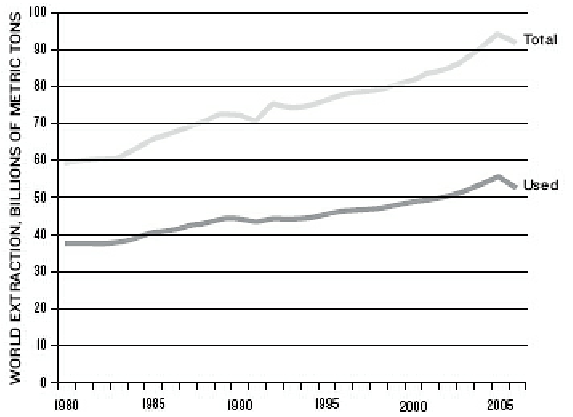
"An underconsumption theory is a theory of the capitalist economy which contains both of the following two elements:

1) the idea that a state of depression is not just a phase of the industrial cycle or the result of a temporary conjunction of circumstances but is the state towards which the economy naturally tends in the absence of offsetting factors;

2) the idea that this is the result of a persistent tendency towards insufficiency of demand for consumption goods."

Bleaney, M. F. (1976): *Underconsumption theories. A history and critical analysis*, International Publishers, New York.

17. Worldwide materials extraction, 1980-2005 (Schor, 2011)



Sustainable Europe Research Institute (2009)

"In contrast to predictions of dematerialization, the volume of materials used globally, as well as in each individual region of the world, is rising. The extraction and transformation of resources like fuels, wood, sand, gravel, minerals, and biomass create the pulse of an economy (…) We now have the first comprehensive global estimates of material flows over time. In 1980 humans extracted and used 40 billion metric tons of metals, fossil fuels, biomass, and minerals (…) Twenty-five years later, the annual use of materials had increased 45 percent, to 58 billion. All regions are heavier users, including North America. While 58 billion tons is a very large number, it represents only that portion of extracted resources that actually enter the economy. Another 39 billion or so tons are displaced in the process of production. This unused or wasted extraction is sometimes called overburden. It's the soil that's removed in coal mining, the discarded shells of plants, and so forth. For some commodities, the overburden is enormous. To yield one ounce of gold, a mining company can excavate a hundred or more tons of earth."

Schor, Juliet B. (2011): *True wealth. How and why millions of Americans are creating a time-rich, ecologically light, small-scale, high-satisfaction economy*, Penguin Books, New York.

18. Democratic capitalism

"Of all the systems of political economy which have shaped our history, none has so revolutionized ordinary expectations of human life—lengthened the life span, made the elimination of poverty and famine thinkable, enlarged the range of human choice—as democratic capitalism."

"What do I mean by 'democratic capitalism'? I mean three systems in one: a predominantly market economy; a polity respectful of the rights of the individual to life, liberty, and the pursuit of happiness; and a system of cultural institutions moved by ideals of liberty and justice for all. In short, three dynamic and converging systems functioning as one: a democratic polity, an economy based on markets and incentives, and a moral-cultural system which is pluralistic and, in the largest sense, liberal. Social systems like those of the United States, West Germany, and Japan (with perhaps a score of others among the world's nations) illustrate the type."

"In the conventional view, the link between a democratic political system and a market economy is merely an accident of history. My argument is that the link is stronger: political democracy is compatible in practice only with a market economy. In turn, both systems nourish and are best nourished by a pluralistic liberal culture. It is important to give attention to all three systems."

"… modern democracy and modern capitalism proceed from identical historical impulses. These impulses had moral form before institutions were invented to realize them; they aimed (1) to limit the power of the state, in defense against tyranny and stagnation; and (2) to liberate the energies of individuals and independently organized communities. Such impulses gave birth to modern European cities, whose first citizens took as their battle cry 'City air makes men free.' Such citizens sought liberation from the crippling taxation, heavy bureaucracy, and dreary regulations of state and church. The moral vision of such citizens demanded forms of self-government in 'city republics' and 'free cities.' It led them to cherish economies based upon free markets, incentives, and contracts. Gradually, such citizens developed polities based upon covenants, suffrage, the separation of powers, and the declaration of individual rights. The two revolutions—political and economic—in practice, but also in theory, nourished each other."

"While bastard forms of capitalism do seem able for a time to endure without democracy, the natural logic of capitalism leads to democracy. For economic liberties without political liberties are inherently unstable. Citizens economically free soon demand political freedoms (…) The state which does not recognize limits to its power in the economic sphere inevitably destroys liberties in the political sphere (…) Another point must be noted. Democratic polities depend upon the reality of economic growth."

"A democratic system depends for its legitimacy, therefore, not upon equal results but upon a sense of equal opportunity. Such legitimacy flows from the belief of all individuals that they can better their condition. This belief can be realized only under conditions of economic growth. Liberty requires expanse and openness. In addition, liberty also requires social mobility."

"Democratic capitalism is neither the Kingdom of God nor without sin. Yet all other known systems of political economy are worse."

Novak, Michael (1991): *The spirit of democratic capitalism*, Madison Books, Lanham, Maryland.

19. Three related features of the capitalist world system (Zack Cope, 2015)

"(1) The enrichment of the working class of the core, metropolitan or First World nations within capitalist social structures; (2) the massive and growing income disparity between the people living in advanced capitalist societies and those living in peripheral, economically extraverted or dependent capitalist societies; and (3) the widespread racism, ethnic chauvinism and xenophobia pervading First World society today."

"The conditions of life for the working class in the countries of the Global North are predicated upon the immiseration, national oppression and exploitation of the workers and farmers of the Global South (…) The metropolitan working class has been transformed into a petty bourgeois labour aristocracy subsisting in large measure from the surplus labour of the superexploited workforce in the oppressed nations of the Third World has met with resistance on the part of the metropolitan left."

"If a free market truly existed, capital would accumulate in and flow to the Third World generating dramatic rises in Third World wages (…). However, there is not a free market. Rather, there exist two things demonstrating the indelibly political nature of economics. First, there is a system of violent government repression in the Third World, whereby autocratic 'free trade' regimes are installed, financed and legitimated by imperialist governments (particularly, but not exclusively, the USA) to keep wages low and natural resources cheap. At the same time, racist and discriminatory border controls are established that prevent competition between the proletariat of the Third World and the labour aristocracy of the First World."

"On a global scale (…) the largest multinational corporations (MNCs) are indeed based in countries with the highest wage levels. As in the past, imperialist countries today are able to invest in more productive technologies and more capital-intensive industries only because they can maintain profit rates by importing more economic surplus from foreign territories than they export to the same. Currently (…) this surplus comes not only in the form of unpaid-for raw materials and foodstuffs produced by land-starved agrarian populations, as in the colonial era, but also, and increasingly, of surplus value produced by superexploited wage-labourers."

"Presently, MNCs control about 70 per cent of all world trade and over a quarter of the world's economic activity takes place within the 200 largest corporations (…) 'Free trade' in an international capitalist system with a 'class monopoly' by the northern countries over the means of production allocates all of the efficiency trading gains to the North, just as 'free markets' under domestic capitalism with a class monopoly by capitalists over the means of production allocates all efficiency gains to capital (with surplus labour and in the absence of countervailing power by unions and the state)."

"One of the most striking features of the imperialist world economy revealed in the data is that Northern firms do not compete with Southern firms; they compete with other Northern firms (…) There is North-North competition, and fierce competition between Southern producers for contracts with Northern-led firms, but no North-South competition."

"Remove the Third World as a source of superprofits, and the economies of the First World would be bankrupt. Moreover, if capitalism was to survive under such conditions, First World workers would see their standard of living sink like a stone, for they would thus fall back into the proletariat. In short, economically speaking, the core imperialist countries are net parasites subsisting off the land, labour and resources of the Third World and not value produced by their own workers (…) Capitalism's ability to maintain itself in the teeth of crisis revolves around its ability or otherwise to maintain the Third World in a subordinate position."

Cope, Zak (2015): *Divided world divided class. Global political economy and the stratification of labour under capitalism*, second edition, Kersplebedeb, Montreal.

20. Postcapitalism: network vs hierarchy

"Neoliberalism is the doctrine of uncontrolled markets: it says that the best route to prosperity is individuals pursuing their own self-interest, and the market is the only way to express that self-interest. It says the state should be small (except for its riot squad and secret police); that financial speculation is good; that inequality is good; that the natural state of humankind is to be a bunch of ruthless individuals, competing with each other."

"Capitalism is more than just an economic structure or a set of laws and institutions. It is the whole system – social, economic, demographic, cultural, ideological – needed to make a developed society function through markets and private ownership. That includes companies, markets and states. But it also includes criminal gangs, secret power networks, miracle preachers in a Lagos slum, rogue analysts on Wall Street."

"That, in short, is the argument of this book: that capitalism is a complex, adaptive system which has reached the limits of its capacity to adapt (…) Capitalism (…) will not be abolished by forced-march techniques. It will be abolished by creating something more dynamic that exists, at first, almost unseen within the old system, but which breaks through, reshaping the economy around new values, behaviours and norms."

"Postcapitalism is possible because of three impacts of the new technology in the past twenty-five years. First, information technology has reduced the need for work, blurred the edges between work and free time and loosened the relationship between work and wages. Second, information goods are corroding the market's ability to form prices correctly. That is because markets are based on scarcity while information is abundant. The system's defence mechanism is to form monopolies on a scale not seen in the past 200 years – yet these cannot last. Third, we're seeing the spontaneous rise of collaborative production: goods, services and organizations are appearing that no longer respond to the dictates of the market and the managerial hierarchy. The biggest information product in the world – Wikipedia – is made by 27,000 volunteers, for free, abolishing the encyclopaedia business and depriving the advertising industry of an estimated $3 billion a year in revenue (…) Parallel currencies, time banks, cooperatives and self-managed spaces have proliferated, barely noticed by the economics profession, and often as a direct result of the shattering of old structures after the 2008 crisis. New forms of ownership, new forms of lending, new legal contracts: a whole business subculture has emerged over the past ten years, which the media has dubbed the 'sharing economy'. Buzzterms such as the 'commons' and 'peer-production' are thrown around, but few have bothered to ask what this means for capitalism itself. I believe it offers an escape route – but only if these micro-level projects are nurtured, promoted and protected by a massive change in what governments do. This must in turn be driven by a change in our thinking about technology, ownership and work itself."

"Collaborative production, using network technology to produce goods and services that work only when they are free, or shared, defines the route beyond the market system. It will need the state to create the framework, and the postcapitalist sector might coexist with the market sector for decades. But it is happening (…) The main contradiction today is between the possibility of free, abundant goods and information and a system of monopolies, banks and governments trying to keep things private, scarce and commercial. Everything comes down to the struggle between the network and the hierarchy, between old forms of society moulded around capitalism and new forms of society that prefigure what comes next."

Mason, Paul (2015): *Postcapitalism. A guide to our future*, Allen Lane.

21. Suggestions for a post-labour world (Peter Fleming, 2015)

"We work, pay taxes, take care of the bills and commuting costs for one single reason: not to 'survive' but so that the governing elite gains its privileges for nothing. Our labour is designed to provide freedom to the rich. Our work exists in order to subsidize the costs of their existence (…) The more the neoliberal elite desires complete exemption from the social systems we are forced to participate in, the more we have to work. And because neoliberal capitalism entails such extreme inequalities of wealth distribution, work must become an inexorable way of life for most of us, rather than something we do among other things."

- "**A surplus living wage.** Everybody in society ought to be paid at least an average of £30,000 irrespective of what they do. And no one should be paid more than £95,000 a year (roughly a 1:3 income ratio between the poorest and richest in society)."
- "**Post-state democratic organizations.** The governmental structure as it currently stands should be abandoned and a more direct form of participatory democracy should be instituted. Parliamentary democracy is neither parliamentary nor democratic, but a vehicle of direct oppression to enhance the interests of an elite so minute and removed from everyday life that we have little idea who most of them are."
- "**The transfer of all monopolistic and oligopolistic enterprises into public hands**, that is, under the direct control of their own users. Railways, banks, healthcare providers, suppliers of water, electricity and foodstuffs, for example, have completely lost sight of their respective purposes under neoliberal capitalism."
- "**The three-day work week.** From a historical viewpoint, societies that insisted people work more than three days a week were usually slave societies. The maintenance of even a 'sophisticated self-subsistence' does not require more than 20 hours of work a week (…) No economic value is added after a certain threshold is passed. Little of interest is created over and above the three days a week."

[Parkinson's Law: the time used to perform a task is adapted to the time given to perform it. "If we are given eight hours to perform a task, it usually takes eight hours to do so successfully. If we are only given three hours to do the same task, it typically takes three hours to do so successfully."]

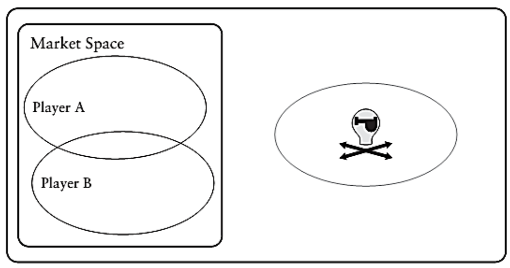
- "**Demassifying society as a positive global movement.** A friend recently sent me this: 'About 70 per cent of agricultural land and freshwater is used for livestock –more for grains as livestock feed. Beef production uses three-fifths of global farmland. It yields under 5 per cent of protein. A kilogram of beef requires 15,000 liters of water. Shouldn't we stop eating meat?' Slowing down meat consumption is a metaphor for a wider process: slowing down the massification of ways of life that not only have little ethical purpose but are incredible self-destructive (…) Contemporary capitalist work patterns and coercive state communism share a set of elective affinities in this regard. And much of this has to do with the pointless and self-referential aspects of work – accelerated actions that go nowhere, that use up more energy than they give back, and so forth. Capitalism does not equate to individual freedom of expression; exactly the opposite is true."
- "**Demonetarizing incentive structures.** (…) We are currently imprisoned in a theory of money that suggests that its endless accumulation is the only thing that makes us do anything –getting out of bed in the morning, acquiring an education, going to work (…) But the theory is false (…) A panoply of research tells us that we become our creative, moral, insightful, inventive and productive best (i.e. happy people) when motivated by intrinsic rewards rather than financial ones (…). After a certain threshold is passed, money tends to spoil things; our desire for it (to buy things, obtain status, etc.) quickly becomes self-referential and tautological (we want money for its own sake) (…) We tend to be at our best when we do things that we are inherently interested in for their own worth or geared towards important social goals."

Fleming, Peter (2015): *The mythology of work. How capitalism persists despite itself*, Pluto Press, London.

22. The Pirate's Dilemma

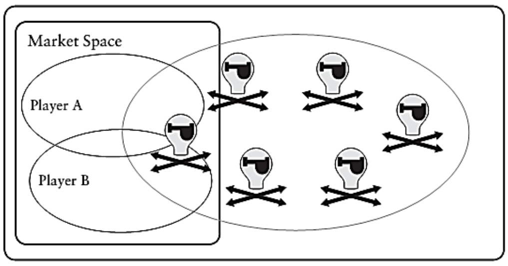
"In the Pirate's Dilemma, Players A and B are not burglars but individuals or companies selling competing products. The players are not being threatened by police, but by pirates: those creating a new space outside of the traditional, legitimate market. Let's assume our definition of 'pirates' also includes those providing free substitute products powered by altruism, such as open-source software, for example. These pirates can add value to society, but in doing so take value from companies or individuals such as Players A and B. When people switch to Linux, for example, that takes market share away from Microsoft (…) When pirates create value for society, society supports them. If the pirates grow and take a larger chunk out of the traditional market space, Players A and B soon find they face a Pirate's Dilemma. Do they try to fight piracy with the law, at the risk of alienating the public, the way the record business did, or do they do what iTunes did, and compete with the pirates in the new market space?"

Pirates create a gap outside of the market.



Mason, Matt (2008): *The pirate's dilemma. How youth culture reinvented capitalism*, Free Press, New York.

If piracy grows, Players A and B will face a Pirate's Dilemma.



23. Marx's law of profitability as a theory of crises: falling profitability is the cause of crises in capitalism

"... the cause of recurring and regular economic crises or slumps in output, investment, and employment in modern economies can be found in Marx's law of the tendential fall in the rate of profit. Marx believed, and we agree, that this is 'the most important law in political economy.' The law is either ignored or disputed by mainstream economics, for an obvious reason: it suggests a fundamental flaw in the capitalist mode of production."

"The law reveals that crises arise from the very essence of capitalism—the fundamental contradiction inherent in technological progress, the motor of capitalism's development—namely, that technological progress, while increasing labor productivity, at the same time replaces labor with the means of production, thus decreasing the value of the greater output. If less value and surplus value is generated, less value and surplus value can be realized. This is the root cause of falling profitability and crises (...) Marx's law implies the unpalatable truth that capitalist crises cannot be permanently ended without ending the capitalist mode of production itself."

"Marx's law of the tendency of the rate of profit to fall provides the best explanation of the cause of recurrent and regular crises (slumps) in global capitalism."

Carchedi, Guglielmo; Michael Roberts; eds. (2018): *World in crisis. A global analysis of Marx's law of profitability*, Haymarket Books, Chicago, Illinois.

24. Global capitalism

"Our world is burning. We face a global crisis that is unprecedented in terms of its magnitude, its global reach, the extent of ecological degradation and social deterioration, and the scale of the means of violence (...) The global capitalism perspective offers a powerful explanatory framework for making sense of the crisis."

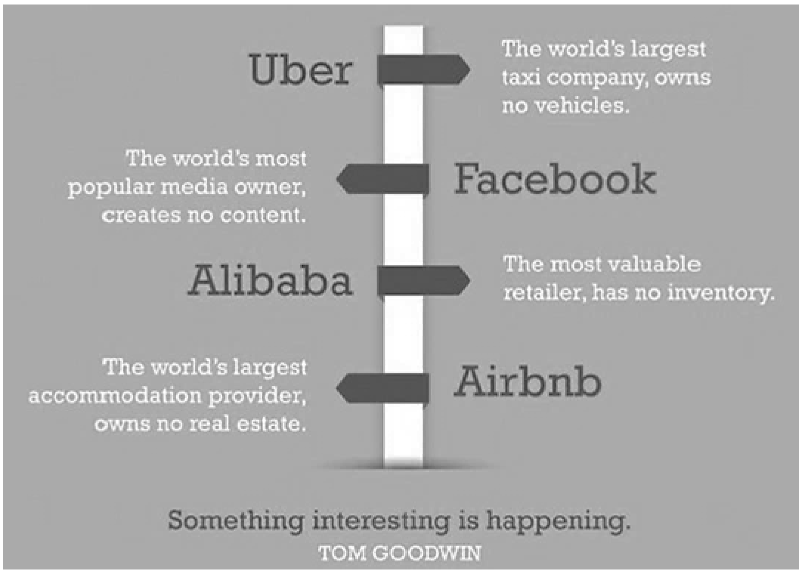
"Globalization constitutes a qualitatively new epoch in the ongoing and open-ended evolution of world capitalism, marked by a number of qualitative shifts in the capitalist system and by novel articulations of social power. I have highlighted four aspects unique to this epoch."

- "First is the rise of truly transnational capital and a new global production and financial system into which all nations and much of humanity have been integrated, either directly or indirectly. We have gone from a world economy, in which countries and regions were linked to each other via trade and financial flows in an integrated international market, to a global economy, in which nations are linked to each other more organically through the transnationalization of the production process, of finance, and of the circuits of capital accumulation."
- "Second is the rise of a Transnational Capitalist Class (TCC), a class group that has drawn in contingents from most countries around the world, North and South, and has attempted to position itself as a global ruling class. This TCC is the hegemonic fraction of capital on a world scale."
- "Third is the rise of Transnational State (TNS) apparatuses. The TNS is constituted as a loose network made up of trans- and supra-national organizations together with national states that functions to organize the conditions for transnational accumulation and through which the TCC attempts to organize and institutionally exercise its class power."
- "Fourth are novel relations of inequality, domination, and exploitation in global society, including an increasing importance of transnational social and class inequalities relative to North-South inequalities that are geographically or territorially conceived."

Robinson, William I. (2014): *Global capitalism and the crisis of humanity*, Cambridge University Press, New York.

25. Machine | platform | crowd

"In March of 2015, strategist Tom Goodwin pointed out a pattern. "Uber, the world's largest taxi company, owns no vehicles," he wrote. "Facebook, the world's most popular media owner, creates no content. Alibaba, the most valuable retailer, has no inventory. And Airbnb, the world's largest accommodation provider, owns no real estate." (...) The three examples we've just described—AlphaGo's triumph over the best human Go players, the success of new companies like Facebook and Airbnb that have none of the traditional assets of their industries, and GE's use of an online crowd to help it design and market a product that was well within its expertise—illustrate three great trends that are reshaping the business world."



"The first trend consists of the rapidly increasing and expanding capabilities of machines, as exemplified by AlphaGo's unexpected emergence as the world's best Go player. The second is captured by Goodwin's observations about the recent appearance of large and influential young companies that bear little resemblance to the established incumbents in their industries, yet are deeply disrupting them. These upstarts are platforms, and they are fearsome competitors. The third trend, epitomized by GE's unconventional development process for its Opal ice maker, is the emergence of the crowd, our term for the startlingly large amount of human knowledge, expertise, and enthusiasm distributed all over the world and now available, and able to be focused, online."

McAfee, Andrew; Erik Brynjolfsson (2017): *Machine, platform, crowd. Harnessing our digital future*, W. W. Norton & Company, New York.

26. The rise of the collaborative commons

"The capitalist era is passing... not quickly, but inevitably. A new economic paradigm—the Collaborative Commons is rising in its wake that will transform our way of life (...) The struggle between these two competing economic paradigms is going to be protracted and hard fough (...) While I suspect that capitalism will remain part of the social schema for at least the next half century or so, I doubt that it will be the dominant economic paradigm by the second half of the twenty-first century (...) the Collaborative Commons is ascendant and, by 2050, it will likely settle in as the primary arbiter of economic life in most of the world."

"The Internet of Things will connect every thing with everyone in an integrated global network. People, machines, natural resources, production lines, logistics networks, consumption habits, recycling flows, and virtually every other aspect of economic and social life will be linked via sensors and software to the IoT platform, continually feeding Big Data to every node—businesses, homes, vehicles—moment to moment, in real time."

"We are so used to thinking of the capitalist market and government as the only two means of organizing economic life that we overlook the other organizing model in our midst that we depend on daily to deliver a range of goods and services that neither market nor government provides. The Commons predates both the capitalist market and representative government and is the oldest form of institutionalized, self-managed activity in the world.

The contemporary Commons is where billions of people engage in the deeply social aspects of life. It is made up of literally millions of self-managed, mostly democratically run organizations, including charities, religious bodies, arts and cultural groups, educational foundations, amateur sports clubs, producer and consumer cooperatives, credit unions, health-care organizations, advocacy groups, condominium associations, and a near endless list of other formal and informal institutions that generate the social capital of society (...) The IoT is the technological 'soul mate' of an emerging Collaborative Commons."

"The technology platforms of the First and Second Industrial Revolutions were designed to be centralized with top-down command and control. That's because fossil fuels are only found in certain places and require centralized management to move them from underground to the final end users (…) The high up-front cost of establishing vertically integrated enterprises in the First and Second Industrial Revolutions required large amounts of investment capital (…) The emergence of the IoT infrastructure of the Third Industrial Revolution, with its open architecture and distributed features, allows social enterprises on the Collaborative Commons to break the monopoly hold of giant, vertically integrated companies operating in capitalist markets by enabling peer production in laterally scaled continental and global networks at near zero marginal cost."

Rifkin, Jeremy (2014): *The zero marginal cost society. The internet of things, the collaborative commons, and the eclipse of capitalism*, Palgrave Macmillan, New York.

27. Carceral capitalism

"If—to borrow Wolfgang Streeck's taxonomy—the tax state (i.e., the postwar Keynesian welfare state) has evolved into the debt state (which authorizes austerity), then what we are witnessing now is the emergence of the predatory state, which functions to modulate the dysfunctional aspects of neoliberalism and in particular the realization problem in the financial sector."

"The question of who owns the public debt is a political one that enables the financial sector and the wealthiest Americans to assert their interests by claiming that they are everyone's interests. As the public debt is financialized and the money to cover government expenditures is increasingly supplied by the financial sector, government bodies become more accountable to creditors than to the public. Over time, this has a de-democratizing effect. In short, the outcome of neoliberal policies and federal fiscal retrenchment has been not only privatization and austerity, but predatory and parasitic governance on the state and local levels and indebtedness as a generalized social condition. Increasingly, local governments are engaging in risky forms of borrowing, making high-risk financial bets with public money. When these deals go south—as many of them did in the wake of the 2008 financial crisis—governments have sought to balance the budget on the backs of the poor, the unemployed, and black and brown people."

"As we have seen with the explosion of prisons in the latter half of the twentieth century (which occurred alongside market liberalization), the supposed scaling back of government does not necessarily lead to the shrinking of police, prisons, and military spending. Prisons and law enforcement may actually grow when the ideology of small government is hegemonic because the maintenance of law and order is considered the proper (morally authorized) domain of government."

"The collapse of the tax state owing to neoliberalization has created a situation where the livelihoods of local government bodies are increasingly tied to predatory fiscal structures that foster looting (…) From an economic perspective, the new sentencing regime that emerged alongside the War on Drugs—such as three strikes laws for drug possession—make little economic sense: Why waste an exorbitant amount of public money on incarcerating nonviolent offenders, sometimes for life?

Wang, Jackie (2018): Carceral capitalism, Semiotext(e), South Pasadena, CA.

28. Modalities of contemporary racial capitalism: predatory lending and parasitic governance (Jackie Wang, 2018)

"Predatory lending is a form of bad-faith lending that uses the extension of credit as a method of dispossession (…) Bad-faith lending might be a high-interest or free-floating interest rate loan (often offered with a "hook" rate that eventually expires) and is designed such that the borrowers will likely default and thus their property will be taken away (their goods repossessed, their homes foreclosed, etc.) (…) Overall, predatory lending enables profit maximization when growth is stagnant, but this form of credit will always be plagued by realization problems, which are sometimes resolved using state force.

Parasitic forms of governance—which have intensified in the wake of the 2008 crash—are actually rooted in decades-old problems (…) Beginning in the 1970s, there was a revolt in the capitalist class that undermined the tax state and led to the transformation of public finance. During the subsequent decades the tax state was gradually transformed into the debt state (…) This model of public finance creates a situation where creditors, rather than the public, become the privileged constituency of governments. The hegemony of finance is antidemocratic not only because financial institutions are opaque and can influence finance through their ownership of the public debt, but also because fiscal crises (which can be induced by the financial sector) authorize the use of state power to extract from the public. Parasitic governance, as a modality of the new racial capitalism, uses five primary techniques: 1) financial states of exception, 2) automated processing, 3) extraction and looting, 4) confinement, and 5) gratuitous violence."

Wang, Jackie (2018): Carceral capitalism, Semiotext(e), South Pasadena, CA.

29. Does capitalism have a future?

"We are reluctant to call the 'state,' let alone 'global state,' the political structure of a better future. This is in fact the biggest unknown (…) Most of us doubt that existing international organizations add up to the prototype of such structures. The United Nations, the European Union, the IMF, Davos, G-8, G-20 (…) belong to the epoch of capitalist integration and American hegemony. At present these institutions are weakened or compromised by political manipulation and technocratic aloofness. Some of us, however, see the only solution to environmental crisis in a much stronger network of relations between states—a Super United Nations. Others of us doubt that this political integration can be achieved fast enough, and it is not without its own worries (…) The changing structures and directions of future politics will surely deliver big surprises."

"The coming decades will be anything but usual: that is, usual in the perspective of the last 500 years. The collective trajectory of humanity is taking a big turn, but not necessarily for the worse. (…) There is no reason to believe, on the basis of the accumulated understandings of sociology, that history will ever end, as long as there are human beings connected in social organization. The direst scenarios involving a world nuclear war or environmental collapse, fortunately, seem avoidable precisely because collective extinction has been widely regarded as a real danger for some decades now. The end of capitalism is not a catastrophe of that sort (…) Ultimately, the end of capitalism is a hopeful vision. Yes, it comes with its own dangers. We must remember how early twentieth-century attempts to foster anticapitalist alternatives in response to crisis developed totalitarian tendencies and ended in bureaucratic inertia. Nor should we forget how directly these anticapitalist projects arose from the state machineries and personnel constructed in the world wars. The crucial political vectors in the coming decades will have to be curbing militarism and institutionalizing democratic human rights around the planet."

"Those who worry about postcapitalism ushering in a period of deadly stagnation are surely wrong. Those who hope that postcapitalism will deliver a lasting paradise without its own crises are likely wrong, too. After the crisis—and, some of us predict, the postcapitalist transition of the mid-21st century—there will be a great deal happening. Hopefully, much of it will be good. We shall see, and soon enough."

Wallerstein, Immanuel Maurice; Randall Collins; Michael Mann; Georgi Derluguian; Craig Calhoun (2013): *Does capitalism have a future?*, Oxford University Press, New York.

30. Do capitalism and globalization endanger the provision of public goods?

"The expansion of the market system encourages individual rationality in each of us, weakening the drive for cooperation (…) However, it is a cooperative attitude which is needed to come to collective decisions which make public goods possible." (de Grauwe, 2017, p. 51)

The growing interdependence that comes with globalization creates the need to identify and supply public goods, by public authorities, beyond the national level (at the regional and the world level). Two basic examples of these new public goods are a multilateral trade system and global financial stability. Cooperation at the international level is not only needed to provide these goods but also to correct the negative externalities that arise from domestic policies taken without concern for their international repercussions. Lack of cooperation among states replicates at the global level what lack of cooperation among individuals produces at the national market level.

The 2007-08 global financial crisis can be seen as a consequence of the failure to endow a globalized economy with credible global rules, at least regarding international financial relations and macroeconomic policies. Global finance and global trade call for global regulation and global cooperation.

Bini Smaghi, Lorenzo (2011): "Tommaso Padoa-Schioppa: Economist, policymaker, citizen in search of European unity, ‚Speech given at the European University Institute, Fiesole, 28 January 2011.

de Grauwe, Paul (2017): *The limits of the market. The pendulum between government and market*, Oxford University Press, Oxford, UK.

Sinn, Hans-Werner (2010): ***Casino capitalism. How the financial crisis came about and what needs to be done*****, Oxford University Press, Oxford, UK.**

31. Yunus' (2017) three zeroes

Muhammad Yunus (winner of the Nobel Peace Prize) views the current capitalist economic system as suffering from three big failures: persistence of poverty, unemployment and environmental degradation. He contends that the system must be redesigned by pursuing three goals: zero poverty, zero unemployment, zero net carbon emission.

Yunus, Muhammad with Karl Weber (2017): ***A world of three zeros. The new economics of zero poverty, zero unemployment, and zero carbon emissions*****, PublicAffairs, New York.**

32. Workers vs (businesses & government): new state of exploitation?

"Since the beginning of the twenty-first century, we have been living in a state of drastic social transition; indeed, it is surprising that nobody forecast such extreme changes. Especially in Japan, the increase in the gap between the rich and poor has become quite large (…) The power of big business is quite formidable, and the status of workers is in a very fluid state. Indeed, it seems that so-called disposable workers are no longer "human beings." Younger generations are completely exhausted by the new state of exploitation (…) and have little hope for the future. They can be easily replaced by foreign unskilled workers. They are excluded from labor union protections that are typically in place solely for regular workers. And they are looking in vain for rosy opportunities just to become regular workers (…) Foreign workers employed as technical interns also find themselves in terrible situations: they are being exploited with wage rates that are much lower than legal minimum standards. They must work long hours as unskilled workers and cannot acquire any new promised occupational skills. Disappointed from such unfair treatment, they quit their jobs, but then find (at least in Japan) that they have no public status or employment insurance. Some of them turn to crime (…) On the other hand, big business is warmly supported by the government on the pretext of national profits and the maintenance of global competitive power. Why on earth is it that for 15 years we, the common people, have had to struggle for only small and ordinary levels of happiness?"

Kondoh, Kenji (2017): ***The economics of international immigration. Environment, unemployment, the wage gap, and economic welfare*****, Springer, Singapore.**

Powell, Benjamin; ed. (2015): ***The economics of immigration. Market-based approaches, social science, and public policy*****, Oxford University Press, New York.**

33. The rise of data-rich markets: data-driven vs money-based markets (Thomas Ramge, 2018)

"To do their magic, markets depend on the easy flow of data, and the ability of humans to translate this data into decisions—that's how we transact on markets, where decision-making is decentralized (…) Until recently, communicating such rich information in markets was difficult and costly. So we used a workaround and condensed all of this information into a single metric: price. And we conveyed that information with the help of money."

"Price and money have proved to be an ingenious stopgap to mitigate a seemingly intractable challenge, and it worked—to a degree. But as information is compressed, details and nuance get lost, leading to suboptimal transactions (…) For millennia, we tolerated this inadequate solution, as no better alternative was available. That's changing. Soon, rich data will flow through markets comprehensively, swiftly, and at low cost. We'll combine huge volumes of such data with machine learning and cutting-edge matching algorithms to create an adaptive system that can identify the best possible transaction partner on the market. It will be easy enough that we'll do this even for seemingly straightforward transactions.

Conventional markets have been highly useful, but they simply can't compete with their data-driven kin. Data translates into too much of an improvement in transactions and efficiency. Data-rich markets finally deliver what markets, in theory, should always have been very good at—enabling optimal transactions—but because of informational constraints really weren't (…) The benefits of this momentous change will extend to every marketplace.

The key difference between conventional markets and data-rich ones is the role of information flowing through them, and how it gets translated into decisions. In data-rich markets, we no longer have to condense our preferences into price and can abandon the oversimplification that was necessary because of communicative and cognitive limits (…)

There is a gold rush just around the corner, and it will soon be in full swing. It's a rush toward data-rich markets that deliver ample efficiency dividends to their participants and offer to the providers a sizable chunk of the total transaction volume. The digital innovations of the last two decades are finally beginning to alter the foundations of our economy. If done well, market-driven coordination greased by rich data will allow us to meet vexing challenges and work toward sustainable solutions, from enhancing education to improving health care and addressing climate change. Gaining the ability to better coordinate human activity is a big deal (…)

The rise of a market in which a substantial part of the transactional process is automated, and the decline of the firm as the dominating organizational structure to organize human activity efficiently will uproot labor markets around the world (…) A shift from finance to data capitalism will question many long-held beliefs, such as work as a standardized bundle of duties and benefits."

Mayer-Schönberger, Viktor; Thomas Ramge (2018): *Reinventing capitalism in the age of Big Data*, Basic Books, New York.

34. Streeck's (2016) apocalyptic horsemen of contemporary capitalism

Stagnation, debt and inequality are Streeck's (2016) apocalyptic horsemen of contemporary capitalism that are devastating the economic and political landscape. Is a capitalist economy compatible with a democratic polity? Is capitalism socially dysfunctional?

Streeck, Wolfgang (2016): *How will capitalism end. Essays on a failing system*, Verso, London.

35. Monopolization

"In the 1930s, Franklin Delano Roosevelt publicly blamed Wall Street and monopolies for ruining the economy, and used the political power he acquired with that criticism to decentralize and democratize the corporate sector in what became known as the New Deal. But in the Obama era, political party elites from both sides and cultural tastemakers engaged in a moral celebration of Wall Street (…) Those who organized our response to the financial crisis loved *Hamilton* because it celebrated their moral approval of rule by elite technocrats (…) The bailouts from 2008 to 2010 were not intended to stop a depression, they were intended to stop a New Deal. And so they did."

"Take a look around. You probably have a phone made by one of two companies. You likely bank at one of four giant banks, and fly on one of four big airlines. You connect with friends with either Facebook, WhatsApp, or Instagram, all of which are owned by one company. You get your internet through Comcast or AT&T. Data about your thoughts goes into a database owned by Google, what you buy into Amazon or Walmart, and what you owe into Experian or Equifax. You live in a world structured by concentrated corporate power. This goes far beyond consumer brands. Our increasingly concentrated and corrupted medical system is literally killing us. As one analyst put it, 'due to medical errors and other forms of harmful care, contact with the American health-care system is now the third leading cause of death in the United States.' That's 10 percent of all U.S. deaths. This too can be traced, in part, to monopolization."

"Monopolization opens back doors for bad actors to undermine our democracies. Facebook, for instance, accidentally allowed Russian meddling in elections across the West."

"Our chains of production are concentrated and globalized. Virtually all vitamin C production—a key food preservative—is controlled by a cartel in China. Most saline solution, a key medical supply, is made in hurricane-prone Puerto Rico."

36. Old problems returning

"In the meantime, old problems have returned. Wage stagnation and economic inequality is back with a vengeance, as is regional inequality, with a few gilded cities full of capital and opportunity, and vast swaths of impoverished rural areas beset with addiction and depression. Civic leaders, who used to run local stores, churches, small businesses, local law firms, and farms, have been washed away by a wave of Walmarts and Targets and Amazons. This is not just true in America, but globally.

In the commercial realm, more and more of us work for really big companies. Farmers must sell grain, buy seeds, potash, and chemicals, and sell chicken and beef through a small group of giant companies. Every small business is at the beck and call of a credit card and payments cartel. Concentrated power is in every nook and cranny of commerce. Peanut butter. Poultry. Supermarkets. Movie theaters. Vaccines. Drugstores. Advertising."

"There are many arguments for what is at the root cause of our current social dysfunction. Various explanations include the prevalence of racism, automation, the rise of China, inadequate education or training, the spread of the internet, Donald Trump, the collapse of political norms, or globalization. Many of these explanations have merit."

"But there's another much simpler explanation of what is going on. Our systems are operating the way that they were designed to. In the 1970s, we decided as a society that it would be a good idea to allow private financiers and monopolists to organize our world. As a result, what is around us is a matrix of monopolies, controlling our lives and manipulating our communities and our politics. This is not just happenstance. It was created. The constructs shaping our world were formed as ideas, put into law, and now they are our economic and social reality. Our reality is formed not just of monopolized supply chains and brands, but an entire language that precludes us from even noticing, from discussing the concentrated power all around us. The baby boom generation did not mean to build the world that they did. They wanted a world based on justice and equality, and responded to the problems they saw based on what they knew. They were simply never taught to understand corporate power."

37. Success is a continuous struggle

"A generation ago, there was a revolution. It was not a left-wing or right-wing revolution. It was a revolution of ideas. That revolution was so powerful and dominant that it stole from us not just our liberties but even the words that helped us describe our world. Words like 'liberty' and 'markets' and 'competition' and 'monopoly' and 'citizen' have been perverted, taken by technocrats who hide the levers of power from most of us. Popular debates are stuck in the 1970s. We attack or praise capitalism, or socialism, or the free market. All of this misses the point. The fight has always been about whether monopolists run our world, or whether we the people do. That is the fight hidden from us by the revolution of the 1970s."

"Google and Facebook, in 2018, took roughly 60 percent of all online ad revenue in America, and online ad revenue is the largest and fastest-growing source of advertising money. Google has about 90 percent of the search ad market, can track users across 80 percent of websites, and its ad subsidiary AdMob has 83 percent of the market for Android apps and 78 percent of iOS apps. Facebook has 77 percent of mobile social networking trafficking, and roughly two thirds of Americans get news on social media (…) Roughly 1,800 local newspapers in America have disappeared since 2004, and over 2,000 of the 3,143 counties in America now have no daily newspaper (…) America is increasingly a news desert (…) the reality is the increasing number of seeming options for information masks a smaller and smaller amount of original reported news."

"Meanwhile Amazon captures nearly one of every two dollars Americans spend online (…) Amazon, like Google and Facebook, exists because of the legal shift enabling and promoting bigness in structure and monopoly in business strategy. But while new, these companies are, like the railroads or Standard Oil, network industries very much like their antecedents (…) There is no perfect analogy to Amazon, but it is a mixture of Standard Oil, the A&P chain store, the Microsoft software monopoly, and the Mellon system of interlinked businesses (…) Google was, like the 'Everything Store,' monopolistic from inception, with a goal of "organizing the world's information."

"Today, with Google, Amazon, Facebook, we find ourselves in America, and globally, with perhaps the most radical centralization of the power of global communications that has ever existed in history. One company controls roughly 90 percent of what we search for. And they also know what we think, because we tell them, through our searches. Another company controls our book market, and a third controls how we interact with our social worlds. Meanwhile, the free press is dying."

"We have created and re-created our republic many times in our history. We did it in 1776 when we declared independence, not just from a king but from the idea of aristocracy itself. We did it in freeing ourselves from the Slave Power, and again in 1912 and during the New Deal and World War II, when we liberated ourselves from industrial barons and fascists. Today, we must choose whether we have the courage, wisdom, and discipline to govern ourselves, both as individuals, as communities, and as a nation. That is our choice, as a people. Nothing about monopolization is inevitable (…) The truth is, America is a battle, a struggle for justice. And we choose, every generation, who wins."

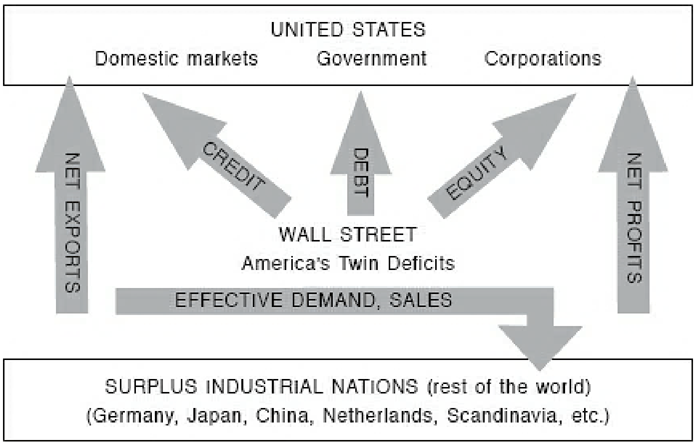
Stoller, Matt (2019): *Goliath. The 100-year war between monopoly power and democracy*, Simon & Schuster, New York.

38. Some management and leadership lessons from Hewlett and Packard

- "The greatest success goes to the person who is not afraid to fail in front of even the largest audience."
- "Those closest to the action, no matter what their title, typically understand a process (and its flaws) better than anyone else—and would be happy to share that knowledge with anyone who will take the time to ask."
- "Great entrepreneurs typically combine almost obsessive preparation and attention to detail with a wide-open opportunism."
- "Poor cash flow—even with a full in-box of orders—is one of the greatest threats to a company. Don't be afraid of debt; but fully understand the difference between short- and long-term debt."
- "A frustrated employee is a greater threat than a merely unhappy one."
- "The true test of loyalty is when you have every excuse not to honor it."
- "Core principles are only valid if they are maintained in times of stress."
- "Management by Walking Around: The job of a manager is to support his or her staff, not vice versa—and that begins by being among them."
- "The Storeroom Incident: Don't punish employees for having initiative, even if it doesn't fit standard procedures."
- "Don't punish employees for having been put in a position beyond their abilities. Relocate them quietly and diplomatically."
- "The biggest competitive advantage is to do the right thing at the worst times."
- "No matter how appealing a new idea, if it is not within your core competencies do not pursue it."
- "When entering into a new geographic market, prepare carefully before making a decision. But once the decision is made, move quickly and decisively. Don't hesitate or move piecemeal."
- "Corporate objectives are designed to empower employees and constrain management, not the reverse. People naturally want to do a good job. The true goal of corporate objectives is to let them."
- "Along with humanity, realism is the single most important trait in a good executive."
- "Always try to finance growth on profits. Long-term debt is a dangerous game. Taking on long-term debt means serving two masters—customers and lenders—whose interests may not be compatible."
- "Over the long term, the interconnection between company products can be as valuable as the products themselves."
- "At the moment of your greatest victory, you should be preparing for the next battle."
- "When the accomplishment exceeds the agreement, pay the accomplishment."
- "Entrusting employees to set their own schedule has a minimal impact on operations, but an immense impact upon employee morale, loyalty, and productivity."
- "Companies, as they grow, vacillate between centralization and decentralization. Therefore, even as the company is decentralizing, prepare for the next centralization—and vice versa."
- "Nostalgia for past success can lead you to preserve current failure."
- "When the company makes a mistake, admit it immediately and make full restitution. It may be the only way to retain loyal customers."
- "The inherent danger with building an organization on trust and teamwork is the potential for wishful thinking and mass delusion. Senior management must be prepared to intervene at these moments—even if it means violating the tenets of the corporate culture."
- "A company is not what it makes, but what it is. The only enduring factor is its core philosophy. Almost everything else is expendable."
- "Innovation must *never* be allowed to take on a life of its own. Rather, innovation must *always* be disciplined by the marketplace. This is especially true in a company dedicated to innovation."

Malone. Michael S. (2007): *Bill & Dave. How Hewlett and Packard built the world's greatest company*, Portfolio, New York.

39. Varoufakis's global minotaur hypothesis



"I might have called this book The Global Vacuum Cleaner, a term that captures quite well the main feature of the second post-war phase that began in 1971 with an audacious strategic decision by the US authorities: instead of reducing the twin deficits that had been building up in the late 1960s (the budget deficit of the US government and the trade deficit of the American economy), America's top policy makers decided to increase both deficits liberally and intentionally. And who would pay for the red ink? Simple: the rest of the world! How? By means of a permanent tsunami of capital that rushed ceaselessly across the two great oceans to finance America's twin deficits. The twin deficits of the US economy thus operated for decades like a giant vacuum cleaner, absorbing other people's surplus goods and capital (…) it did give rise to something resembling global balance: an international system of rapidly accelerating asymmetrical financial and trade flows capable of creating a semblance of stability and steady growth. Powered by America's twin deficits, the world's leading surplus economies (e.g. Germany, Japan and, later, China) kept churning out goods that Americans gobbled up. Almost 70 per cent of the profits made globally by these countries were then transferred back to the United States, in the form of capital flows to Wall Street. And what did Wall Street do with them? It instantly turned these capital inflows into direct investments, shares, new financial instruments, new and old forms of loans and, last but not least, a 'nice little earner' for the bankers themselves. Through this prism, everything seems to make more sense: the rise of financialization, the triumph of greed, the retreat of regulators, the domination of the Anglo-Celtic growth model (…) The role of the beast was played by America's twin deficits, and the tribute took the form of incoming goods and capital."

"Central to this global surplus recycling mechanism (GSRM), which I have likened to a Global Minotaur, were the two gargantuan deficits of the United States: the *trade deficit* and the federal government *budget deficit*. Without them, the book argues, the global circular flow of goods and capital (see diagram below) would not have 'closed', destabilizing the global economy. This recycling system broke down because Wall Street took advantage of its central position in it to build colossal pyramids of private money on the back of the net profits flowing into the United States from the rest of the world. The process of *private money* minting by Wall Street's banks, also known as *financialisation*, added much energy to the recycling scheme, as it oozed oodles of new financial vitality, thus fuelling an ever-accelerating level of demand within the United States, in Europe (whose banks soon jumped onto the private money-minting bandwagon) and Asia. Alas, it also brought about its demise."

"In conclusion, a crystal clear picture is emerging: the Crisis did not alter the deficit position of the United States. The federal budget deficit more or less doubled while America's trade deficit, after an initial fall, stabilised at the same level. *However, the US deficits are no longer capable of maintaining the mechanism that keeps the global flows of goods and profits balanced at a planetary level.* Whereas until 2008 America was able to draw into the country mountains of net imports of goods, and a similar volume of capital flows (so that the two balanced out), this is no longer happening post-2008. American markets are sucking 24 per cent fewer net imports (thus generating only 66 per cent of the demand that the rest of the world was used to before the Crash) and are attracting into the American private sector 57% less capital than they would have had Wall Street not collapsed in 2008.

In short, of the mighty Global Minotaur, the only reminder that remains is the still accelerating flow of foreign capital into America's public debt (…), evidence that the world is in disarray and money is desperately seeking safe haven in the bosom of the reserve currency in this age of tumult. But as long as the Rest of the World is reducing its injection of capital into America's corporate sector and real estate, while America is reducing its imports of their net exports, we can be certain that the beast is dead and nothing has taken its place with a capacity to re-start the essential process of surplus recycling."

"*Europe is disintegrating because its architecture was simply not sound enough to sustain the shockwaves caused by our Minotaur's death throes* (…) For two years now, the German public has become convinced that Germany has escaped the worst of the Crisis because of the German people's virtuous embracing of thriftiness and hard work; in contrast to the spendthrift Southerners, who, like the fickle grasshopper, made no provision for when the winds of finance would turn cold and nasty. This mindset goes hand in hand with a moral righteousness which implants into good people's hearts and minds a penchant for exacting punishment on the grasshoppers – even if punishing them also punishes themselves (to some extent). It also goes hand in hand with a radical misunderstanding of what kept the eurozone healthy and Germany in surplus prior to 2008: that is, the Global Minotaur whose demand-generation antics were for decades allowing countries like Germany and the Netherlands to remain net exporters of capital and consumer goods within and without the eurozone (while importing US-sourced demand for their goods from the eurozone's periphery). Interestingly, one of the great secrets of the post-2008 period is that the Minotaur's death adversely affected aggregate demand in the eurozone's surplus countries (Germany, the Netherlands, Austria and Finland) *more* than it did the deficit member states (like Italy, Spain, Ireland, Portugal and Greece)."

"To recap, the Minotaur's surplus recycling was essential to the maintenance of the eurozone's faulty edifice. Once it vanished from the scene, the European common currency area would either be redesigned or it would enter a long, painful period of disintegration. An unwillingness by the surplus countries to accept that, in the post-Minotaur world, some other form of surplus recycling is necessary (and that some of their own surpluses must also be subject to such recycling) is the reason why Europe is looking like a case of alchemy-in-reverse: for whereas the alchemist strove to turn lead into gold, Europe's reverse alchemists began with gold (an integration project that was the pride of its elites) but will soon end up with the institutional equivalent of lead."

Varoufakis, Yanis (2015): *The global minotaur. America, Europe and the future of the global economy*, Zed Books.

40. Structural crisis of the modern world-system

"Those who start with a premise of eternal linear progress must necessarily believe that any difficulties in which the world finds itself are essentially transitory and momentary. Sooner or later, the difficulties will be overcome by the logic and the pressures of the system. In our present situation, there are two major variants of this expression of certainty about the future. One group believes that as long as we maximize the priority of the so-called free market, the seeming difficulties of the moment will be overcome and further economic growth will ensue, to everyone's mutual benefit. A second group believes that as long as we defend and expand a social-democratic 'welfare state,' the seeming difficulties of the moment will be overcome and further economic growth will ensue, to everyone's mutual benefit. However, if one believes that there has been increasing polarization and that systems have finite lives, and therefore that we may now be in our system's structural crisis, (…) no 'solution' to our current difficulties looms on the horizon. There exists neither a neoliberal nor a social-democratic way out of the structural crisis."

"What happens in a structural crisis is that the system bifurcates (…) The principal characteristic of a structural crisis is a series of chaotic and wild fluctuations of everything—the markets, the geopolitical alliances, the stability of state boundaries, employment, debts, taxes, and the groups we blame for the crisis. Uncertainty, even in the short run, becomes chronic. And uncertainty tends to freeze economic decision-making, which of course makes things worse, primarily by reducing levels of real income for the vast majority of the world's populations."

41. The world's future

"Here are some of the things we may expect in the middle run of the next decade or two. Most states are facing, and are going to continue to face, a squeeze between reduced income and increased expenditures (…) The juggling between the multiple loci of geopolitical power will also become ever more unstable in a situation in which none of these loci will be in a position to dictate the interstate rules. The United States is today no longer hegemonic. It has become an erstwhile hegemonic power with feet of clay. However, it still remains powerful enough to be able to wreak damage by missteps. China today seems to have the strongest emerging economic position, but it is probably less strong than both it and others think (…) Obviously, these wild oscillations and increased short-term uncertainties do not offer happy outcomes for most people. World unemployment can be expected to rise, not fall. And ordinary people will feel the pinch very severely. They have already shown that they are ready to fight back in multiple forms, and this popular resistance will grow. We shall find ourselves in the midst of a vast political battle to determine the world's future."

"Those who have wealth and privilege today will not sit idly by. However, it will become increasingly clear to them that they cannot secure their future through the existing capitalist system. They will seek to bring into existence some other system, one based not on a central role of the market but rather on a combination of brute force and deception. The primary objective would be to ensure that the new system guaranteed the continuation of three key features of the present system—hierarchy, exploitation, and polarization (…) On the other side will be popular forces across the world, which will also seek to create a new kind of historical system, one that is based on relative democracy and relative equality. Such a system has never yet existed. (…) Who will win out in this battle? No one can predict. It will be the result of an infinity of nano-actions by an infinity of nano-actors at an infinity of nano-moments."

Wallerstein, Immanuel Maurice; coord. (2015): *The world is out of joint. World-historical interpretations of continuing polarizations*, Routledge

42. The world-system analysis

"Part of the problem is that we have studied these phenomena in separate boxes to which we have given special names –politics, economics, the social structure, culture– without seeing that these boxes are constructs more of our imagination than of reality. The phenomena dealt with in these separate boxes are so closely intermeshed that each presumes the other, each aff ects the other, each is incomprehensible without taking into account the other boxes. And part of the problem is that we tend to leave out of our analyses of what is and is not 'new' the three important turning points of our modern world-system: (1) the long sixteenth century during which our modern world-system came into existence as a capitalist world-economy; (2) the French Revolution of 1789 as a world event which accounts for the subsequent dominance for two centuries of a geoculture for this world-system, one that was dominated by centrist liberalism; and (3) the world revolution of 1968, which presaged the long terminal phase of the modern world-system in which we find ourselves and which undermined the centrist liberal geoculture that was holding the world-system together (…) The proponents of world-systems analysis (…) have been arguing that the separate boxes of analysis –what in the universities are called the disciplines– are an obstacle, not an aid, to understanding the world. We have been arguing that the social reality within which we live and which determines what our options are has not been the multiple national states of which we are citizens but something larger, which we call a world-system."

43. World-system and world-economy

"The world in which we are now living, the modern world-system, had its origins in the sixteenth century. This world-system was then located in only a part of the globe, primarily in parts of Europe and the Americas. It expanded over time to cover the whole globe. It is and has always been a world-economy. It is and has always been a capitalist world-economy. What we mean by a world-economy (…) is a large geographic zone within which there is a division of labor and hence significant internal exchange of basic or essential goods as well as flows of capital and labor. A defining feature of a world-economy is that it is not bounded by a unitary political structure. Rather, there are many political units inside the world-economy, loosely tied together in our modern world-system in an interstate system. And a world-economy contains many cultures and groups-practicing many religions, speaking many languages, differing in their everyday patterns. This does not mean that they do not evolve some common cultural patterns, what we shall be calling a geoculture. It does mean that neither political nor cultural homogeneity is to be expected or fo und in a world-economy. What unifies the structure most is the division of labor which is constituted within it (…) We are in a capitalist system only when the system gives priority to the endless accumulation of capital. Using such a definition, only the modern world-system has been a capitalist system (…) A world-economy and a capitalist system go together. Since world-economies lack the unifying cement of an overall political structure or a homogeneous culture, what holds them together is the efficacy of the division of labor. And this efficacy is a function of the constantly expanding wealth that a capitalist system provides."

44. Unequal exchange

"The axial division of labor of a capitalist world-economy divides production into core-like products and peripheral products (…) What we mean by core-periphery is the degree of profitability of the production processes. Since profitability is directly related to the degree of monopolization, what we essentially mean by core-like production processes is those that are controlled by quasi-monopolies. Peripheral processes are then those that are truly competitive. When exchange occurs, competitive products are in a weak position and quasimonopolized products are in a strong position. As a result, there is a constant flow of surplus-value from the producers of peripheral products to the producers of core-like products. This has been called unequal exchange."

"Since (...) quasi-monopolies exhaust themselves, what is a core-like process today will become a peripheral process tomorrow. The economic history of the modern world-system is replete with the shift, or downgrading, of products, first to semiperipheral countries, and then to peripheral ones (...) The strong states, which contain a disproportionate share of core-like processes, tend to emphasize their role of protecting the quasi-monopolies of the core-like processes. The very weak states, which contain a disproportionate share of peripheral production processes, are usually unable to do very much to aff ect the axial division of labor , and in eff ect are largely fo rced to accept the lot that has been given them."

45. Cycles of the world-economy

"The normal evolution of the leading industries –the slow dissolution of the quasi-monopolies– is what accounts for the cy clical rhythms of the world-economy. A major leading industry will be a major stimulus to the expansion of the world-economy and will result in considerable accumulation of capital. But it also normally leads to more extensive employment in the world-economy, higher wage-levels, and a general sense of relative prosperity. As more and more firms enter the market of the erstwhile quasi-monopoly, there will be 'overproduction' (that is, too much production for the real effective demand at a given time) and consequently increased price competition (because of the demand squeeze), thus lowering the rates of profit. At some point, a buildup of unsold products results, and consequently a slowdown in further production. When this happens, we tend to see a reversal of the cyclical curve of the world-economy. We talk of stagnation or recession in the world-economy."

46. Kondratieff cycle

"The process (...) expansion of the world-economy when there are quasi-monopolistic leading industries and contraction in the world-economy when there is a lowering of the intensity of quasi-monopoly (...) can be drawn as an up-and-down curve of so-called A-(expansion) and B-(stagnation) phases. A cycle consisting of an A-phase followed by a B-phase is sometimes referred to as a Kondratieff cycle (...) Kondratieff cycles have up to now been more or less fifty to sixty years in length. Their exact length depends on the political measures taken by the states to avert a B-phase, and especially the measures to achieve recuperation from a B-phase on the basis of new leading industries that can stimulate a new A-phase. A Kondratieff cycle, when it ends, never returns the situation to where it was at the beginning of the cycle. That is because what is done in the B-phase in order to get out of it and return to an A-phase changes in some important way the parameters of the world-system. The changes that solve the immediate (or short-run) problem of inadequate expansion of the world-economy (an essential element in maintaining the possibility of the endless accumulation of capital) restore a middle-run equilibrium but begin to create problems fo r the structure in the long run. The result is what we may call a secular trend."

47. States in the world-system

"There are two questions to ask. The first is why transforming the world-economy into a world-empire was never possible, whereas achieving hegemony within it was. The second is why hegemony never lasted (...) A world-empire (...) would in fact stifle capitalism, because it would mean that there was a political structure with the ability to override a priority for the endless accumulation of capital. This is of course what had happened repeatedly in all the world-empires that had existed before the modern world-system. Thus, whenever some state seemed intent on transf orming the system into a world-empire, it found that it faced eventually the hostility of most important capitalist firms of the world-economy."

"How then could states even achieve hegemony? Hegemony, it turns out, can be very useful to capitalist firms, particularly if these firms are linked politically with the hegemonic power. Hegemony typically occurs in the wake of a long period of relative breakdown of world order in the fo rm of 'thirty years' wars' (...) Hegemony creates the kind of stability within which capitalist enterprises, especially monopolistic leading industries, thrive. Hegemony is popular with ordinary people in that it seems to guarantee not merely order but a more prosperous fu ture for all. Why not then hegemony forever? As with quasi-monopolies in production, quasi-absolute power in hegemonies self-destructs. To become a hegemonic power, it is crucially important to concentrate on efficiencies of production which lay the base for the hegemonic role. To maintain hegemony, the hegemonic power must divert itself into a political and military role, which is both expensive and abrasive. Sooner or later, usually sooner, other states begin to improve their economic efficiencies to the point where the hegemonic power's superiority is considerably diminished, and eventually disappears. With that goes its political clout (…) The use of 'imperial' force undermines the hegemonic power economically and politically, and is widely perceived as a sign not of strength but of weakness, first externally then internally. Far fr om defining the world cultural language, a declining hegemonic power begins to find its preferred language out of date and no longer readily acceptable."

"As a hegemonic power declines, there are always others who attempt to replace it. But such replacement takes a long time, and ultimately another 'thirty years' war.' Hence hegemony is crucial, repeated, and always relatively brief. The capitalist world-economy needs the states, needs the inter-state system, and needs the periodic appearance of hegemonic powers. But the priority of capitalists is never the maintenance, much less the glorification, of any of these structures. The priority remains always the endless accumulation of capital."

Wallerstein, Immanuel (2004): *World-systems analysis. An introduction*, Duke University Press.

48. Capitalism, power, democracy

"Capitalism is premised upon two kinds of power: (1) private economic power that comes from the control of property and profit-making; and (2) coercive power exercised by states in (and often beyond) bounded national territories (…) It may be that liberal democracy needs capitalism, but it is definitely not the other way around. In fact, whatever anticapitalism's prospects, the future of anything like democracy will depend very much on which of the terms dominates the capitalism-democracy pairing. Even if in the short term it seems democracy is tied to capitalism, there is clearly no necessary mutual dependence between the two. What is certain is that we can no longer leave democracy to the capitalists."

49. 'Long Boom' and 'Longer Downturn'

"The quarter-century or so following World War II is often called capitalism's 'golden age' or the Long Boom—an era during which the capitalist global North (western and northern Europe, North America, and—confusingly—Australia and New Zealand) experienced unprecedented economic growth, low unemployment, increased average living standards, decreasing income and wealth inequality, and a vast expansion of what we now call the welfare state. The following fifteen years or so, however, roughly 1967–82, saw the whole thing seemingly go to pot. Many thought that capitalism itself was in its death throes. These years inaugurated a process we might call the Long Downturn, a trajectory which, depending upon one's data and interpretation, continues today."

50. Bretton Woods system

"Bretton Woods (…) had three main formal aims: to promote and fund postwar European reconstruction (…); to secure the political stability of debtor nations (the UK in particular (…)); and to stabilize the international monetary regime, which was (correctly) understood to be crucial to the first two goals. Forty-four nations, including the most powerful states in the world and led by the US (which emerged from the war the clear capitalist hegemon), signed the agreements. According to their architects, the institutions would work as follows: The IMF, using funds contributed by all nations, would provide low-interest loan coverage to debtor states to prevent default during reconstruction and reconversion (…). The World Bank would provide loans or grants for the reconstruction of European (and, eventually, Japanese) economies, a flow of funds greatly enhanced by the US's Marshall Plan, which rebuilt German industry remarkably rapidly in the 1940s and 1950s (…). To make all this possible, the international monetary regime was stabilized via a system of 'fixed' exchange rates between all major currencies, so all capitalist nation-states had the value of their moneys 'pegged' to a specific rate against the US dollar (unsurprisingly, China and the Soviet Union were not signatories). The foundation of the system lay the US dollar's anchor to a gold standard. In other words, its value was pegged to gold, which made the US responsible for the stability of the regime as a whole. Every US dollar was to be backed by—exchangeable for—gold: 1 troy ounce for every 35 US dollars, to be precise."

"The Bretton Woods monetary scheme was a system in which all capitalist moneys could in theory move securely in the international realm because their values, and the stability of the economies in which they were based, were guaranteed by an institutional backstop in the form of the IMF, the World Bank, and the general context of American economic power. No need for frantic currency trading, no fears of massive devaluation or overvaluation, and no way for speculators to manipulate or exacerbate exchange rate fluctuations. This is the political economic regime within which the 'welfare state' emerged."

51. Long Boom

"… the Long Boom (…) from a growth, social security, income equality, and wage-rate perspective, (…) was more successful than any previous international or national mode of economic organization—capitalist or noncapitalist. Of course, not everyone enjoyed the fruits of this 'success.' It entailed—indeed, it depended upon—a vastly unequal distribution of political economic power and the further geographical concentration of wealth in the global North."

52. Long Downturn

"The Long Downturn is closely associated with the collapse of the Bretton Woods regime, since many of the dynamics it was designed to suppress or eliminate in the mid-1940s raised their ugly heads two decades later. By the late 1960s, the fixed-exchange-rate regime was falling apart. Food and commodity prices rose, driving inflation and inviting speculation. Oil prices skyrocketed (rising 400 percent), and the advanced capitalist world experienced a severe decline in productivity growth (the increase in output per unit of labour). This slower rate of growth ignited distributional conflict between labour and capital, and between different fractions of capital. This fanned the inflationary flames higher, as different social groups and classes fought to retain their piece of the income pie, exacerbating political instability."

"… the crisis that ended the good ol' days of the Long Boom was a distributional struggle (…) This struggle had two fronts: (1) a struggle between labour and capital over the distribution of income—an increasingly empowered labour-force wanted more of it; (2) a struggle between nationally based capitalists over the distribution and control of productive power and international market share. One might also add: (3) conflict between highly developed rich countries and resource-rich but less powerful countries (…) States played a key role in these developments, mostly by attempting to manage or contain the distributional conflict."

53. Neoliberalism as counter-revolution

"So the Long Downturn that followed the long boom was at least partly a product of that boom's successes (…). The eventual response to the crisis, in the 1970s and early 1980s, took a little while to configure. But when it came, at least in North America, the UK, and parts of western Europe (…), it brought the reassertion of capitalist discipline. It put capital back on top of the political economic hierarchy (…) by choosing domestic conflict management option (b) above: clamp down by reducing government spending, raising interest rates, suppressing wages and benefits, and tightening up the supply of money and credit in circulation (…) This turn to inflation control marks the consolidation of the neoliberal capitalist state in the industrialized world. The principal objective was to reverse course on the distributional conflict strategy: to give up on the conciliatory attempt to inflate our way out of crisis, and force markets to swallow a bitter pill and deflate. In other words, the state, with the particularly vocal support of bankers, decided to kill inflation, no matter what the social cost (…) What we know today as "neoliberal" policy was established at this time, and not just in monetary policy, but across the whole realm of capitalist economic management. It was the moment when business, and finance capital in particular, started to reassert control of an economic system that had throughout the post–WWII era been increasingly influenced, if never dominated, by labour."

"Following the analysis of political economist Andrew Glyn, we can describe the components of this strategy as 'austerity, privatization, and deregulation' (although 'reregulation' would be better (…)). Glyn says these involved a 'counter-revolution' in macroeconomic policy (fiscal austerity, restrictive monetary policy), the retreat of government from many arenas of economic life via deregulation and privatization, and the 'freeing' of labour market dynamics, in particular by repealing or not enforcing worker protections and union-friendly legislation."

"Neoliberalism is the ongoing effort, in an inevitably uneven global political economy, to construct a regulatory regime in which the market is the principal means of governance and the movement of capital and goods is determined as much as possible by firms' short-term returns. Because that global political economy is dynamic, neoliberalism is always incomplete."

54. The IMF as an agent of neoliberalism

"The IMF is one of the most important frontline units in the diffusion of neoliberalism beyond the wealthy world. It has been a key player in many of neoliberalism's most notable disasters, including the institutionally imposed starvation, poverty, and indebtedness due to the global North's so-called 'management' of the Latin American debt crisis. Much of this devastation is associated with the IMF's role in the 'structural adjustment' of developing world national economies. Although the IMF was not originally designed to do this work, by the 1980s one of its principal objectives was to remove what it identified as 'structural' obstacles preventing client states' 'integration' into the global economy, especially via trade, but also via financial flows (…) Why, in the IMF's view, is international economic integration good for everyone? The IMF's policy programs are designed with particular theories in mind. On the economic side, we have the classical political economy (…) The political theory side is underwritten by a doctrine that goes hand in hand with classical political economy: classical liberalism (…) Its constituent policy prescriptions have three main objectives, which, in the case of the IMF's loans, become 'conditions' that must be met to receive funds: Liberalization (drop tariffs, subsidies, capital controls, export restrictions, etc.); privatization (sell state holdings, which in many cases are substantial); stabilization (allow currency to float at its 'natural' [usually lower] exchange rate)."

55. Neoliberalism, globalization, financialization

"Neoliberalism is not merely a way to specify the modern variety of classical orthodoxy, but a description of at least two powerful and intertwined contemporary economic dynamics: globalization and financialization. Neoliberalism can be understood as the historical conjuncture, and political legitimization (via both coercion and consent) of these two processes. Globalization is the integration of the international economy via trade. The original version of liberalism certainly involved globalization, but without the kind of financialization we have today with neoliberalism—or at least, back then, finance played a different and subordinate role as investor in productive enterprise (…) In the first era of globalization [British free trade imperialism in the 19th century], the era of classical liberalism, the term meant international economic integration via trade and production networks, especially trade in goods and primary commodities. Indeed, as measured by international trade, the first era of globalization was as integrated as the present. In our present era of neoliberal globalization, the term means international economic integration via trade and financial channels. In contrast to the first era of globalization, today the movement of goods and services, and the flows of often untethered capital, are equal but often independent partners (…) The simultaneous explosions of financialization and globalization in the last thirty or so years have been interdependent."

"The most fundamental problem with capitalism, and the reason it must be rejected, is that it is *structured*, in its very operation, to make it impossible for millions and even billions to be free in any meaningful sense."

Mann, Geoff (2013): *Disassembly required. A field guide to actually existing capitalism*, AK Press.

56. Capitalism, democracy and corruption

"Such is the ambiguity inherent in the capitalism-democracy nexus. On the one hand, there is the correlation between economic freedom (market exchange) and political freedom (liberal democracy); on the other, there is the contrast between private appropriation (sanctioned by corporate power) and social goals ('the will of the people')."

"Paradoxically, where capitalism is most compatible with democracy—through its improvement of material living standards so that electoral choices are no longer constrained by poverty—it is precisely in this way that capitalism (consumerism, commercialized values) penetrates non-economic spheres, contrary to liberal-democratic theorizing."

"The capitalism-democracy-society nexus is the structural condition of corruption. The process of corruption follows three stages. First, the incompatible claims of economic and political systems: this 'structural' incompatibility is reflected in the crucial political distinction between public and private spheres, characteristic of 'modernity', but which is conflated in capitalist practice. Second, there is the need for collusion ('accommodation') between politicians and business people if they are to overcome this incompatibility in order to make the system work. Collusion for such a purpose is arguably in the public interest, but it also satisfies private interests. Corruption is the third stage, when private interests prevail."

"The paradox of economic growth accompanied by significant political corruption—evident in nineteenth century America as in present-day France, Italy and Japan—cannot be understood in a purely institutional (one-dimensional) context. That corruption in a number of cases failed to pervert society—even if it perverted politicians—is attributable, rather, to normative strengths elsewhere: personal moral obligations and effective voluntary associations are examples (…) Note, however, that what appear as three separate dimensions—economic (Southeast Asia), political (Republican France), and socio-cultural (Victorian Britain) —also operate together within a country. Thus:

• dynamic capitalism, with corruption as its exuberant excess, and which also is a way of adapting the political system to the economic;

• establishment of democratic institutions and assertion of 'Republican' values—but which are undermined, especially at times of crisis, by corruption;

• effective social norms, which help to counter the perverse effects of corruption (for corruption itself is normatively defined)."

"Corruption, in sum, derives from capitalist conditions, collusive politics, and normative (social) perceptions."

Girling, John (1997): *Corruption, capitalism and democracy*, Routledge, London.

57. The world-historical stages of capitalism

	1750–1810	1810–1870	1870–1930	1930–1990	1990–
Global Capitalism	Mercantilism	Liberalism	Imperialism	Late capitalism	Neoliberalism
Hegemonic State		Britain		United States	
Economic Policy	Imperialistic	Liberalism	Imperialistic	Liberalism	Imperialistic
Capital	Merchant capital	Industrial capital	Finance capital	State-monopoly capital	Multinational capital
World Commodity	Textiles	Light industry	Heavy industry	Durable consumer goods	Information
State	Absolute monarchy	Nation-state	Imperialism	Welfare state	Regionalism

Karatani, Kojin (2014): *The structure of world history. From modes of production to modes of exchange*, Duke University Press.

58. Varieties of capitalism

"Globalization is the name we currently give to the progressive integration of the world, a process that started centuries go. It denotes not only a massive expansion of trade and production but also a remarkable and unprecedented growth and convergence in consumption. Increasingly, we buy similar products, eat similar food (hamburgers, pizzas, sushi, pasta, fries, 'Chinese' food, curries, tacos, couscous), drink the same beverages (cola, coffee, tea, beer), wear the same clothes (jeans, T-shirts, sneakers) with the same brands (Levis, Quicksilver, Nike, etc.), read the same best-sellers (J. K. Rowling, Dan Brown, Ken Follett), listen to similar music, and watch the same kind of television programmes. Underpinning this worldwide system is an equally global ideology, market capitalism (…) In the emerging economies of China, Brazil, and India there is little opposition to capitalism per se; public debate centres on the variety of capitalism that should prevail. Islamic fundamentalism, seen by some as the remaining challenger of the so-called 'new world order', has little to say about the economy."

"… the period between the second half of the nineteenth century and the Great War, when capitalism triumphed and became universally accepted, when most of its opponents acknowledged that it was inevitable, perhaps even desirable. It will examine how the elites responded to the challenge of industrial capitalism and how industrial progress could be achieved while keeping dissent to a minimum by creating a sense of national community, or a patriotic spirit, or using the state to regulate capitalism, or by conquering new territories."

"Capitalism is a process difficult to define since the presence of a few capitalists and of a few capitalist enterprises does not make a society 'capitalist'. That what we call 'the Industrial Revolution' started in the United Kingdom is uncontroversial. What is controversial is when capitalism started."

"…neither the Industrial Revolution nor capitalism started in Bologna during the thirteenth century or Florence in the fourteenth century. The typical unit of production remained the small workshop run by a single artisan employing some apprentices, using simple tools. The merchants could also use the 'putting out' system, which consisted in providing workers, in their own homes, with raw materials, tools, even partially woven cloth, and then selling their products. This avoided what would have been the expensive and risky creation of larger units of production, such as factories."

"Thus Venice, Bruges, and then Antwerp in the fifteenth century, Amsterdam in the seventeenth century, London in the nineteenth and the United States in the second half of the twentieth century were 'hegemonic' precisely because traders involved in foreign trade had to follow their rules."

Sassoon, Donald (2019): *The anxious triumph. A global history of capitalism, 1860-1914*, Penguin.

59. Consolidating capitalism through the creation of national communities

"Capitalism (…) is never a matter of mere economics. Its expansion generates social and political problems; its failure to expand creates even more problems, albeit of a different nature. The ruling elites must find ways of ensuring that capitalism develops without excessive political and social disruption and confound those who seek to dethrone them. What is required is the formation of a *national community*, one in which all groups, regardless of their differences, have a stake in capitalist development. This requires a steady and continuous improvement in the conditions of life of the many, so that individuals regard their own problems as temporary, and can hope that, however bad the present, the future will be better, thus partaking of the optimistic ideology of progress – the ideological foundation of capitalism.

But material improvements for the majority take time and are often not sufficiently well distributed. In any case, the formation of a national community cannot proceed simply by increasing prosperity. A feeling of national togetherness, of social solidarity, requires more than simply the hope of greater wealth in the future. At the end of the nineteenth century, various strategies were deployed, not always consciously, to construct a national community: nationalist state-building, democratization, colonialism and foreign expansion, and social reforms."

"… strategies devised to cope with the disruptions and anxieties of capitalist industrialization: nation-building and its limits (who is part of the 'nation' and who is not); democratization, that is, the extension of the suffrage and the development of political, social, and economic rights, including welfare rights that gradually transformed people into citizens, and the role of religion in this process.

Democratization enhanced the appeal of nationalism, essentially a nineteenth-century construct (…) Nationalism could become the ideological glue that held the people together regardless of other differences, by excluding 'the others' not on religious or class grounds, as was traditional in pre-modern societies, but on a more or less invented ethnic basis. Not for nothing had Marx and Engels concluded their famous 1848 *Manifesto* with their rallying cry to the *Proletarier aller Länder* ('proletarians of all countries') to unite, an internationalist appeal that went quite unheeded – not surprisingly since, in the same text, they called upon the proletariat, if it wanted to 'acquire political supremacy', to become 'the leading class of the nation' and 'constitute itself the nation'.

Nation-building could also involve projecting the nation's power overseas by acquiring colonies (principally by Great Britain, France, Belgium, and, much later, Germany, Japan, and Italy), or internally by extending its territories contiguously, for instance the Tsarist Empire to the east and the United States to the west, or by protecting national capitalism with tariffs in the hope that it would benefit some strata of the population."

"Colonialism contributed to nation-building in a number of ways: by providing an outlet for colonial administrators and emigrants; by promoting trade; by developing the military; and by building up pride in one's country as truly superior (…). Along with democratization, taxation, and the welfare state, it contributed to the extraordinary development of the state under capitalism and of capitalism under the state, since colonialism is a form of extension of the state into overseas territories.

Yet between the state and capitalism there can be no harmonious relation but only constant conflict (…) There can be only one command centre with rules decided by the state itself. Capitalism, on the other hand, is anarchic, has no centre, no single will. The state is anchored within a territory. Capitalism has global tendencies both in its production and its consumption (…) Every failure of one capitalist is another capitalist's success. Every crisis has winners. Every triumph is temporary. As Schumpeter wrote, capitalism is like a hotel where the clients 'are forever changing'.

And while the form of organization of capital is ever more global, the regulatory agency, the state, is constrained by other states. Of course, states get together, make agreements, sign treaties, establish rules, but there is no super-state able to impose its control, whereas capitalism can reach out all over the planet precisely because it is not a monolith, because it has no centre, because it engenders rivalries and thrives on competition."

"Capitalism is different. Although it too has no mind, no politics, and no unity, change is part of its own dynamic, its own history. Change comes from within itself. Capitalism's only criterion of success is its own survival, which in turn depends on constant change. 'Modern capitalism,' wrote Joan Robinson, 'has no purpose … except to keep the show going."

60. Immortal capitalism?

"Nowadays capitalism moves from crisis to crisis, emerging from each somewhat changed. Crises are vital to its perpetual regeneration. The global downturn of 2007–8 is an indication of the strength of capitalism, since a social system can be said to have really triumphed not when it is working well but when it is malfunctioning and *everyone* rushes to save it. Those who today harbour anti-capitalist views, in the face of the success of capitalism, focus on its failures, but many such failures consist in not having extended its benefits to all. And there is no way of knowing whether, in the longer run, benefits will be better distributed. Eventually, say the optimists, things will work out. On the contrary, say the pessimists, capitalism causes more problems than it resolves. The trouble is that history is the history of unintended consequences. 'Bad' things may turn, if one can wait long enough, into positive things."

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Sassoon, Donald (2019): *The anxious triumph. A global history of capitalism, 1860-1914*, Penguin.

62. Product business vs platform business: product complementarity as a form of globalization

"Gates's decision to give away the basic software to IBM in return for the right to license it to other companies is now a famous and striking example of 'platform thinking.' (…) His goal was not to maximize profits from the sale of DOS to IBM as a stand-alone *product.* Instead, the strategy was to make the operating system into an industry-wide *platform*—a foundation that many companies could use to build personal computers and compatible software applications. IBM seemed intent on controlling the PC market with production of its own personal computers, using Microsoft's software as a component. To Gates, however, encouraging many firms to invest in making IBM-compatible PC hardware and software applications would make the personal computer—and especially Microsoft's operating system—increasingly useful and valuable. Gates would soon enter the software applications business himself to grow the IBM-compatible PC market and take more of the profit, with Word, Excel, and PowerPoint."

"By contrast, Apple cofounder and CEO Steve Jobs did not give away software development kits for free or try to build a broad applications market (…) Jobs also charged hundreds of dollars to developers who wanted to build

Macintosh applications on their own. The development fee was in addition to large expenses that programmers usually had to incur in order to design applications (…) Jobs reasoned, with an easy-to-use graphical interface, the Macintosh was going to be such a great product that companies *should pay him* for the right to build applications. Partly due to the resulting paucity of applications software as well as the high price of the hardware (…), the Macintosh never garnered significant market share. Ultimately, PCs running DOS and then Windows—which mimicked the easy-to-use Macintosh user interface—captured roughly 95 percent of the market for personal computers.

Microsoft was thinking platforms. IBM and Apple were thinking products. The personal computer, like social media, online marketplaces, cloud computing, and smartphones in more recent years, turned out to be a *platform* business, not a *product* business. In the case of the personal computer, by this phrase we mean that, unlike in traditional businesses, success did not depend simply on the quality, price, or timing of Microsoft's operating system as a stand-alone product. Success depended more on complementary innovations that determined what users could do with the product—such as the number and quality of software applications or digital services produced by many companies."

"To turn its product into a platform, Microsoft also had to solve a critical 'chicken-or-egg' problem: how to encourage other companies to build the software applications needed to stimulate demand for PCs. It turned out that broad and cheap licensing of the operating system facilitated the production of low-cost hardware by many companies around the world. Then the rising number of PC users using the same technology created demand for programmers to design increasing numbers of compatible software applications. Who won and who lost depended less on product quality or features and more on who could best bring multiple 'sides' of the emerging market together and generate positive 'feedback loops.'"

"By 2018, Zuckerberg's free software and services enabled more than 2.2 billion people to send messages, share news stories or digital content like photos and videos, organize groups, send money, and do a myriad of other activities (…) In the initial stages of the company, Facebook users actively brought in their friends, and then friends of friends, and friends of friends of friends, weaving together a connected network of people that quickly spanned the globe. This network (…) made the social network increasingly valuable as a *transaction platform* for communications, electronic payments, and other purposes, as well as its core business—selling context-specific advertisements. In 2007 (…) Zuckerberg started to make Facebook's data on users and other functions available as an *innovation platform*—a kind of operating system for social media applications. This decision empowered outside companies and independent programmers to design games and other applications that soon came to number in the millions, and made Facebook an even more compelling experience. But platforms do not always evolve in predictable ways."

63. The rise of platforms as new centres of power

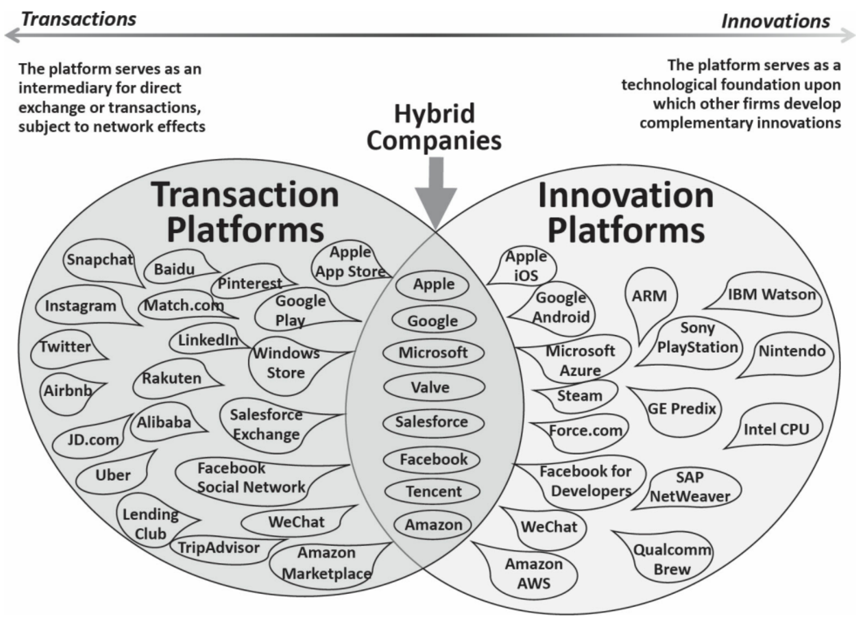
"Platforms, in general, connect individuals and organizations for a common purpose or to share a common resource (…) *they bring together individuals and organizations so they can innovate or interact in ways not otherwise possible, with the potential for nonlinear increases in utility and value* (…) What are commonly called 'network effects' are positive feedback loops that come from connecting different users and market participants to each other."

"… industry platforms deliver products or services by *bringing together two or more market actors or 'sides'* (e.g., buyers and sellers, or an operating system maker with users, application developers, and hardware producers) that would not otherwise interact or easily connect (…) Second, as industry platforms connect users to other users or to other market participants, they generate *network effects*. The unique feature of network effects is that the value one user experiences potentially *increases* as more people or organizations use the same product or service and as more complementary innovations appear (…) Third, in order to link multiple market players and get the network effects started, industry platforms all must solve a *chicken-or-egg problem*. This means that one market side usually needs to come on board first and provide something that attracts another side."

"… we divided digital platforms that emerged with the personal computer, Internet, and smartphones into two basic types (…) The first type we call *innovation platforms*. These platforms usually consist of common technological building blocks that the owner and ecosystem partners can share in order to create new complementary products and services, such as smartphone apps or digital content such as from Apple iTunes or Netflix (…) The network effects come from the increasing number or utility of the complements (…) The second type we call *transaction platforms*. These platforms are largely intermediaries or online marketplaces that make it possible for people and organizations to share information or to buy, sell, or access a variety of goods and services. The more participants, functions, and digital content or services available through a transaction platform, the more useful it becomes. Again, it is mostly the digital technology and scale that make these platforms unique and powerful in today's world."

"The power of a platform is the potential for rapid, nonlinear growth, especially where a company wins all or most of a market."

"… the most valuable firms on the planet and the first companies to surpass the trillion-dollar mark in value (albeit temporarily) are platforms. If we look at market values in late 2018, the top firms were Microsoft, Apple, Amazon, and Alphabet (the holding-company parent of Google since 2015). Also among the leaders were Facebook, Alibaba, and Tencent. Together, these seven companies at their peak represented close to $5 trillion in market value. Moreover, in a recent list of more than two hundred current and former 'unicorns'—start-ups with valuations of $1 billion or more—we estimated that platforms made up between 60 and 70 percent. These were led by firms such as Ant Financial (owned by Alibaba), Uber, Didi Chuxing, Xiaomi, Airbnb, and other well-known private companies."



"… digital platforms that span the globe are new. How have they come to control the flow of information as well as such a large number of goods and services? In what ways are these new entities different, or similar, to the powerful corporations we have seen in the past? And are there limits to the market dominance and expansion of these digital juggernauts that can leverage user data as well as scale and scope economies in ways we have never seen before?"

"We can foresee a time when digital platforms and associated ecosystems will be the way we organize new information technologies such as artificial intelligence, virtual and augmented reality, the Internet of things, health care information, and even quantum computing. We can also see peer-to-peer transaction platforms replacing or competing with traditional businesses, especially as the "sharing" or "gig" economy expands and new technologies diffuse."

"… another hot topic (…) is increasing demand for governments to rethink data-privacy laws, antitrust laws, and other regulations that could rein in the most powerful platform businesses (…) The European Union fined Alphabet-Google $2.7 billion in 2017 and $5.1 billion in 2018 for anticompetitive behavior involving Google Search (which at that time had about 90 percent of the global market outside China and Russia) and its Android smartphone operating system (which accounted for about 80 percent of the global market) (…) Another aggressive platform company, Amazon, was collecting vast amounts of data on its hundreds of millions of users and their transactions, and coming under rising scrutiny in the United States. With more than 500 million individual products for sale, Amazon has disrupted markets such as books, consumer electronics, digital music and video, cloud computing services, groceries, pharmaceuticals, and package delivery. How should government regulators, as well as competing firms, respond to these new centers of power?"

Cusumano, Michael A.; Annabelle Gawer; David B. Yoffie (2019): *The business of platforms. Strategy in the age of digital competition, innovation, and power*, Harper Business, New York.

64. Capitalism and corporate privileges

"Manorialism, commonly, is recognized to have been founded by robbery and usurpation; a ruling class established itself by force, and then compelled the peasantry to work for the profit of their lords. But no system of exploitation,including capitalism, has ever been created by the action of a free market. Capitalism was founded on an act of robbery as massive as feudalism. It has been sustained to the present by continual state intervention to protect its system of privilege, without which its survival is unimaginable.

The current structure of capital ownership and organization of production in our so-called 'market' economy, reflects coercive state intervention prior to and extraneous to the market. From the outset of the industrial revolution, what is nostalgically called 'laissez-faire' was in fact a system of continuing state intervention to subsidize accumulation, guarantee privilege, and maintain work discipline. Most such intervention is tacitly assumed by mainstream right-libertarians as part of a 'market' system (…) expropriation of surplus value –i.e., capitalism– cannot occur without state coercion to maintain the privilege of usurer, landlord, and capitalist."

"… industrial capitalism, to the same extent as manorialism or slavery, was founded on force. Like its predecessors, capitalism could not have survived at any point in its history without state intervention. Coercive state measures at every step have denied workers access to capital, forced them to sell their labor in a buyer's market, and protected the centers of economic power from the dangers of the free market."

"In a letter of 4 September 1867, Engels aptly summed up the difference between anarchists and state socialists: 'They say "abolish the state and capital will go to the devil." We propose the reverse.' Exactly."

65. Slavery in modern times

"Slavery, simply put, is the use of coercion to live off of someone else's labor. For example, consider the worker who pays $300 a month for a drug under patent, that would cost $30 in a free market. If he is paid $15 an hour, the eighteen hours he works every month to pay the difference are slavery. Every hour worked to pay usury on a credit card or mortgage is slavery. The hours worked to pay unnecessary distribution and marketing costs (comprising half of retail prices), because of subsidies to economic centralization, is slavery. Every additional hour someone works to meet his basic needs, because the state tilts the field in favor of the bosses and forces him to sell his labor for less than it is worth, is slavery."

Carson, Kevin Amos (2001): *The iron fist behind the invisible hand. Corporate capitalism as a state-guarenteed system of privilege*, Red Lion Press.

66. Ethical capitalism

"… I am increasingly angered by what I see elsewhere: disreputable people (mostly men) running their companies in a way that involves taking as much as they can from society and then sneaking their profits out of the country. No doubt they think they're clever. I'd like to think that while they are abhorrent, they are also in a minority. Nevertheless they grab the headlines and give other entrepreneurs and traders a bad name. Furthermore, their activities often seem to be treated – and forgiven – as though they are an inevitable by-product of the capitalist way of doing things. I don't accept this. In my view it's possible to run a company both successfully and ethically. In fact, I'd go further. My own experiences in the business world suggest that an ethical approach, far from being a potential barrier to profits, is actually the secret to success."

"What do I mean by ethical? I mean treating staff, customers and suppliers honestly, openly and respectfully. I mean taking responsibility for our actions, owning up when things go wrong and setting out to put them right. I mean seeing ourselves as an integral part of society and paying our dues – and taxes – accordingly. By following this approach I believe we create a virtuous circle for ourselves: not only can we sleep better at night, but a fair and honest approach to customers and staff leads to a huge competitive advantage that in turn reinforces the need to be fair and honest.

To my mind, ethical business is about two interrelated questions. The first is, what are the whys and wherefores of operating an ethical organisation? The second is, how can we, as a society, ensure that capitalism more generally is ethically controlled?"

"When it comes to business, operating ethically does not mean that you have to be a saint and never put a foot wrong (…) For me, it's a whole mindset, which essentially involves three principles:

1. It's all about the people. The key to a successful business lies in managing and motivating the workforce so that they give their best to the job (…)
2. What goes around comes around. Those who cheat end up being cheated. By the same token, when you give that bit extra, the benefit almost always comes back at some point down the line.

3. You get nowt for nowt (…) Business essentially comes down to trade, and all trade should be fair trade, if it is going to be sustainable. So those business people who think it's clever not to pay their suppliers on time, or who put their ingenuity into devising new ways of giving customers poorer value for money, have got the wrong idea. There might be a short-term advantage in that, but there's long-term failure."

Richer, Julian (2018): *The ethical capitalist. How to make business work better for society*, Random House, London.

67. Is globalized finance destroying the economy?

"…the contradiction between the boom in productive forces—meaning artificial intelligence and big data—and the increasing social inefficiency of capitalist property allocation (with structural mass unemployment and an increase in relative poverty) will increasingly lead to radical systemic unsustainability. A reformed capitalist approach is impossible according to this viewpoint."

"This book advocates a form of neo-socialism with a market increasingly counterbalanced by growth, certain of a new role for the entrepreneurial state, but implemented by creating new ways of allocating property rights with a revival of intermediate bodies and workers' organisations, irrespective of the degree to which workers are included in the mechanism of capitalist accumulation."

Sapelli, Giulio (2019): *Beyond capitalism. Machines, work and property*, Palgrave Macmillan.

II. Finance and global integration

68. Is globalized finance destroying the economy?

Technological advances reduce the need of labour in production. Instead of creating a leisure economy it appears that those advances are forcing employees to work overtime to repay debts incurred because of insufficient wages. There is a global debt overhead that increases faster than the value of global production (the economy's ability to pay). Economies (national and global) are endangered by the privilege granted to the financial sector to generate debts without regard to the wealth creation process that ensures debt repayment. It is very difficult for physical wealth to expand exponentially but financial wealth can grow exponentially with certain ease (money is just numbers on a computer screen, mere accounting entries: can be created in huge amounts immediately). The financial sector is autonomous and plays according to its own rules: the casino rules.

69. Two kinds of progress

Traditional idea of progress: from 1945 to 1980, the dominant idea was growth in living standards (children inherit a better world than their fathers). The neoliberal (pro-financial) idea: since 1980, the financial sector (banks, financial investors) want the economic surplus (growth in wages and corporate profits) for themselves, so the benefits of an expanding economy are concentrated on a small percentage of population (which does not leave much room for the rise in living standards).

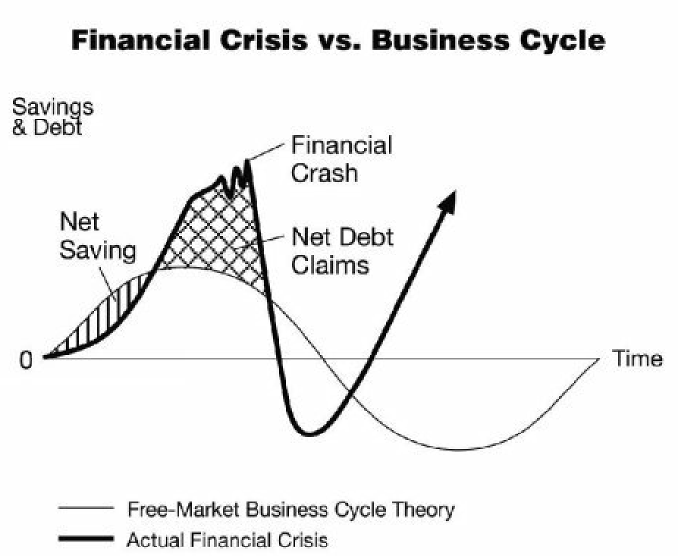
Hudson, Michael (2012): *Finance capitalism and its discontents. Interviews and speeches 2003-2012*, ISLET, Dresden.

70. Laws of capitalist economies (Michael Hudson)

- "The inexorable tendency of debt to grow beyond the ability to be paid."
- "There is no way to sustain the rise in debt without killing the economy."

"Neoliberals say they're against government, but what they're really against is democratic govern-ment. (…) As Germany's Wolfgang Schäuble said, 'democracy doesn't count.' Neoliberals want the kind of government that will create gains for the banks, not necessarily for the economy at large. Such governments basically are oligarchic. Once high finance takes over governments as a means of exploiting the 99%, it's all for active government policy – for itself."

Hudson, Michael (2017): *J is for junk economics. A guide to reality in an age of deception.*



71. Complementary currencies

A complementary currency is a currency not issued by a national public authority (a government, a central bank: state-issued currency) having the monopoly to issue currency. A complementary currency is not supposed to necessarily satisfy all the usual properties of money (medium of exchange, store of value, unit of account, means of payment, means to settle debts): it suffices for the currency to satisfy at least one of them. Complementary currencies help to protect local economies and local communities and contribute to separate the global financial sector from the local/regional real sector (as big corporations cannot send complementary currency abroad to avoid paying taxes). Two examples of complementary currencies are the Bristol pound (a community currency launched on 19 September 2012 in Bristol, UK) and the WIR franc (a private, electronic currency issued and managed by the Swiss WIR Bank).

https://en.wikipedia.org/wiki/Community_currency

https://en.wikipedia.org/wiki/Bristol_Pound | https://en.wikipedia.org/wiki/WIR_Bank

https://en.wikipedia.org/wiki/Complementary_currency

Blanc, Jérôme; Marie Fare (2013): "Understanding the role of governments and administrations in the implementation of community and complementary currencies", *Annals of Public and Cooperative Economics* 84(1), 63-81.

Meyer, Camille; Hudon, Marek (2017): "Alternative organizations in finance: Commoning in complementary currencies", *Organization* 24(5), 629-647

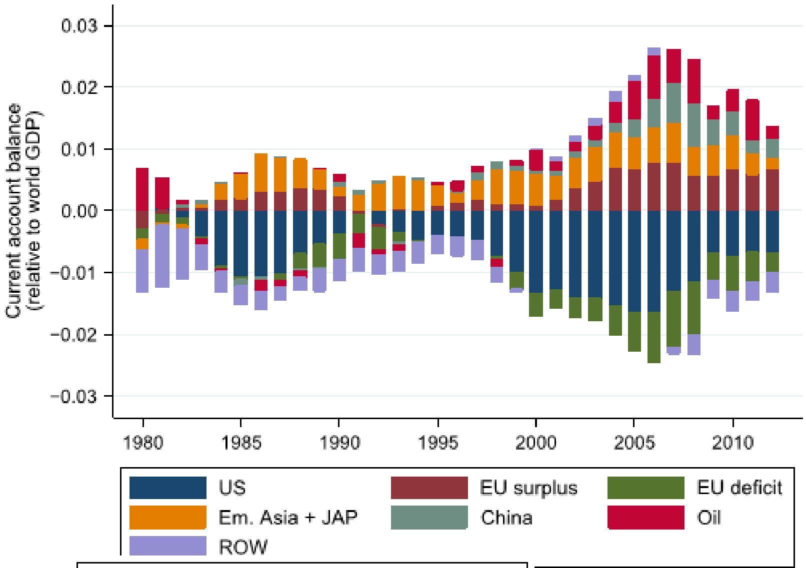
Peacock, Mark S. (2014): "Complementary currencies: History, theory, prospects", Local Economy 29(6-7), 708-722.

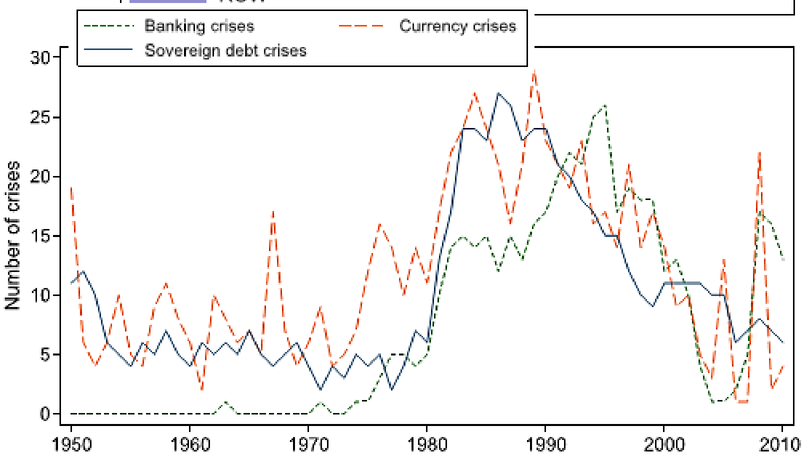
Seyfang, Gill (2000): "The euro, the pound and the shell in our pockets: Rationales for complementary currencies in a global economy", New Political Economy 5(2), 227-246

Spano, Alessandro; John Martin (2018): "Complementary currencies: What role should they be playing in local and regional government?", Public Money and Management 38(2), 139-146.

72. Stylized facts of global trade and finance

- In the period 1985-2012, foreign direct investment (FDI) become more volatile and grew faster than exports (in the period 1975-1985, trade grew faster).
- Persistent global imbalances appear to contradict the free trade doctrine: in the post 1985 era, external deficits by (mostly) developed countries are matched by external surpluses by (mostly) developing countries. The US has accounted for a large share of global external deficits, whereas China has accounted for a large share of global external surpluses.
- The above facts have coincided with an extraordinary growth of transnational corporations. Intra-firm trade of transnational corporation seems to represent one third of global trade.
- Financial globalization dwarfs trade (and FDI) globalization. World GDP itself is many times smaller than the value of non-FDI financial capital flows, most of which is speculative capital.
- For certain internationally traded commodities, it is no longer true that developed countries employ the newest production technologies, plants or equipment. In some industries, developing countries enjoy a double advantage over developed countries: lower wages and more productive technologies.





Baiman, Ron (2017): *The global free trade error. The infeasibility of Ricardo's comparative advantage theory*, Routledge, London and New York.

Steiner, Andreas (2016): *Global imbalances, financial crises, and central bank policies*, Academic Press, London, pp. 6, 8.

73. The efficient market hypothesis: the orthodox representation of financial markets

The efficient market hypothesis, held by orthodox economists, views financial systems as mechanisms that, left to themselves, reach an optimal steady state equilibrium. According to this view, asset market prices always and everywhere correctly reflect the assets' true (or fundamental) value. Asset price movement are simply the market response to external shocks, mainly represented by information changes. As a corollary, asset price bubbles or busts (as commonly understood) do not exist: any observed wild price swings is the market response to a change in the fundamentals (the factors that establish an asset's true value).

Cooper, George (2008): *The origin of financial crises. Central banks, credit bubbles and the efficient market fallacy*, Harriman House, Petersfield, UK.

74. The heterodox view of financial markets

The heterodox view regards the financial system as inherently unstable, with no steady state equilibrium and with an in-built tendency to generate boom-bust cycles that severely damage the economic activity in the real sector (production, consumption and employment). In this alternative view, if unregulated, financial markets are engines that create asset price bubbles that are in turn followed by credit crunches. To control this instability, and provide a stabilizing influence on economic activity, central banks must manage credit (debt) creation. The risk is that if this control is not conducted properly, central bank policies (and central bank mistakes) may amplify boom-bust financial cycles and exacerbate the damaging effects on economies. No one knows the 'equilibrium' prices in financial markets. The behaviour of market participants tend to move market prices away from equilibrium prices. The advantage of public authorities is that there are better positioned to ascertain the intensity of a market disequilibrium and to take into account the social consequences of allowing disequilibrium states to persist.

- "Blind faith in the efficiency of deregulated financial markets and the absence of a cooperative financial and monetary system created an illusion of risk-free profits and licensed profligacy through speculative finance in many areas." UN (2009)

United Nations (2009): *The global economic crisis. Systemic failures and multilateral remedies*, Report by the UNCTAD Secretariat Task Force on Systemic Issues and Economic Cooperation.

75. Financial instability hypothesis (Hyman Minsky)

It is a theory of the business cycle based on the premise that the stability of a capitalist financial system is ultimately destabilizing. A booming economy validates the bets made by borrowers, as a growing economy allows them to repay debt. The more the boom continues, the more evident becomes that borrowers prosper. It then appears not so necessary to follow too prudential rules when incurring debt. Therefore more debt accumulates and the boom goes on.

- Hedge finance (cash flows are enough to meet payment commitments on debt) tends to be displaced by speculative finance (cash flows are insufficient but future cash flows are expected to be enough to cover all debt payments). In a booming economy finance is increasingly available and that validates speculative finance. The sustainability of hedge finance depends on the expansion of real activity (markets for inputs and markets for goods). The sustainability of speculative finance depends on the expansion of financial activity (a normal functioning of the financial markets is necessary to refinance debt). Speculative finance becomes with time increasingly vulnerable: to interest rate rises, to the loss of value of financial assets held, to the willingness of creditors to refinance debt… Lender may quickly and radically redefine what debt structures are considered sustainable and force borrowers to lower debt ratios.
- Ponzi finance occurs when debt can only repaid with more debt. The transition to Ponzi finance by a sufficiently large number of borrowers generates a financial structure which is increasingly susceptible to a crisis, arising when Ponzi borrowers cannot roll over their debt and generalized when most borrowers regard their debt levels excessive and start reducing investment and consumption to lower debt ratios.

- Minsky moment. This refers to the moment when the perception that indebtedness is excessive has become widespread. It is followed, to increase liquidity, by massive sales of financial assets, which in turn precipitate a market crash.
- The financial instability hypothesis can be summarized as follows: "over periods of prolonged prosperity, the economy transits from financial relations that make for a stable financial system to financial relations that make for an unstable system." (Minsky 1992)

Minsky, Hyman P. (1977): "The financial instability hypothesis: An interpretation of Keynes and an alternative to 'standard' theory", Challenge 20(1), 20-27.

Minsky, Hyman P. (1992): "The financial instability hypothesis", Working Paper 74, The Jerome Levy Economics Institute.

Vercelli, Alessandro (2011): "A perspective on Minsky moments: Revisiting the core of the financial instability hypothesis", Review of Political Economy 23(1), 49-67.

76. Two views on crises and severe economic fluctuations

- Orthodox view. Financial crises and severe fluctuations of production and employment are considered anomalies, exceptional events. As such, the orthodox theory need not care to provide explanations for them: financial tranquility is the norm. Markets provide tranquility and efficient outcomes; government intervention brings instability and waste.
- Heterodox view (originated in J. M. Keynes). The combination of uncertainty regarding the future and economic activity conducted in relatively unregulated markets generates financial and economic instability. Financial markets are disequilibrating forces (so financial crises are systemic rather than accidental events) and economic activity depends on the pace of investment (as investment determines aggregate demand and how viable the debt structure is). But investment depends on the subjective evaluation of its profitability.

77. International financial instability: tamers vs tigers

Monetary and financial authorities (the tamers) and global finance (the tigers) pursue goals that sometimes are contradictory: authorities pursue financial stability, whereas financial markets pursue profits by embracing risky undertakings. By pursuing goals that are not always mutually consistent, they maintain a relationship which is often confrontantial and even conflictual. Monetary and financial authorities (treasury or finance ministries and central banks) appear to have accepted the following ideas.

- Global financial markets are viewed as fundamental elements for the growth of the world economy.
- Accordingly, they should be be allowed to operate freely within a transparent and sound regulatory framework that does not distort the functioning of global financial markets.
- Monetary and financial policies must aim at providing a stable monetary and financial environment for the economy, which is viewed as a prerequisite to achieve a sustainable growth of production and employment.
- Credibility is an essential feature of monetary and financial authorities. Credible authorities (those ensuring the consistency of announcements and decisions) are more effective in influencing the expectations of the participants in the global markets. Steering expectations in the right direction reinforces policy effectiveness.
- Global financial stability is strengthened by cooperation (preferably in a multilateral institutional framework) among the most important monetary and financial national authorities. Cooperation is a remedy to the mismatch created by the global scope of financial markets and the national jurisdiction of the regulatory authorities.

Saccomanni, Fabrizio (2008): *Managing international financial instability. National tamers versus global tigers*, Edward Elgar, Cheltenham, UK, and Northampton, MA.

78. Two models to explain capital flows from richer to poorer countries (Michael Pettis)

- The investment model. This model (the dominant one) posits that the prime determinant of capital flows is the destination of the flows: developed-country investors compare expected profit returns in different countries and decide to invest in less developed countries when the growth prospects there are considered more favourable. It is the characteristics ('local economic fundamentals') and policies ('eliminate distortions', 'get the country ready for growth') of the countries receiving the flows that matter.
- The liquidity model. This model posits that the prime determinant of capital flows is the source of the flows: it is a situation of excess liquidity in the richer countries that stimulates capital outflows to the poorer ones.

Vestergaard, Jakob (2009): *Discipline in the global economy. International finance and the end of liberalism*, Routledge, New York.

79. The Lucas paradox (Robert Lucas, Jr, 1990)

Orthodox macroeconomic theory predicts that capital (lending) should flow from the richer to the poorer economies until rates of return are equalized. The Lucas paradox is the observation that such flows are not occurring. Why does does not flow from rich to poor countries?

- In a 1990 paper, Nobel laureate Robert Lucas, Jr. estimated that, if orthodox macro- economic theory were true, the return to investment in India in 1988 should be around 58 times higher than in the United States. Such monumental return differential should make capital to flow from the United States to India. Yet this flow has not been observed.

It is likely that the real interest rate will substantially differ between richer and poorer economies. In a poor economy, by definition, GDP per capita is low and, accordingly, savings are low. In addition, lack of productive capital (which lies behind a low GDP per capita level) implies that the return to capital will also tend to be high. Scarce supply of savings combined with high demand for capital lead to high real interest rates. The reverse is expected to occur in a rich economy. As a consequence, given that capital is mobile internationally, it is natural to predict a flow of funds from richer to poorer economies. One reason why such a flow has not been observed is that investment (lending) in poorer economies is riskier. Hence, it would not be surprising to observe funds flowing from poorer to richer economies, where investment, despite being probably less profitable, is safer. This will cause real interest rate differences between rich and poor economies to widen rather than to contract.

- Investors may lack relevant information: poorer economies are typically less transparent than richer ones.
- There is also exchange rate risk, that is, that the currency of the poor economy receiving investment will fall with respect to the currency of the domestic economy of the investor. If this fall occurs, the investor incurs a loss when converting the invested funds back into the investor's currency.
- Investors may believe that the default risk is higher in a poor (less well known) than in a rich (better known) economy. Justification of this belief: poorer economies are weak agents in international capital markets (it is harder for them to obtain foreign funds) and historically they have been politically and/or socially more unstable than rich countries.
- In general, the environment of a poor economy tends to be more unstable or unpredictable. For example, governments may lack credibility insofar as they are prone to make frequent changes in regulations and taxes.

Akhtaruzzaman, Muhammad; Christopher Hajzler; P. Dorian Owen (2017): "Does institutional quality resolve the Lucas paradox?," Applied Economics, DOI: 10.1080/00036846.2017.1321840.

80. The dollar in the international monetary system

The international monetary system is currently characterized by a centre (developed countries) and a periphery that uses as reserves assets from the centre. The viability of this system depends on its participants to obtain from it what they want or need. Jeanne (2012) identifies three necessary conditions for its viability:

- the centre must provide liquid and safe assets;
- in a sufficient amount to meet the international demand; and

- providing a satisfactory return (global stable store of value).

The US has been so far playing a central role in the international monetary system. Will it continue to do so and for long? The 2008 financial crisis questioned the safety and liquidity of US assets. It is not clear whether the US economy will be strong enough to meet a rising demand for international liquidity. And the decisions by the US authorities on the return on the dollar (the US interest rate) are solely based on domestic considerations and do not take into account whether the decisions ensure that the dollar remains an international stable store of value. Despite all this, it does not appear likely that, in the near future, the international monetary system will become more multipolar (with the central role of the dollar shared with other currencies, like the euro or the renminbi, or replaced by the IMF's Special Drawing Rights).

Jeanne, Olivier (2012): "The dollar and its discontents", Journal of International Money and Finance 31, 1976-1989.

81. Debt cancellation ('clean slate')

In ancient civilizations debt cancellation was a policy preventing the financial sector from ruining the whole economy: ancient policy-makers discovered that debt (which can accumulate exponentially) can quickly surpass the economy's ability to pay. Periodic debt cancellation was a standard measure of financial regulation in ancient societies.

- An example of this policy occurred around 1792 BC in Babylonia under King Hammurabi. At the time, barley was the basic foodstuff households consumed. Households runned up debts denominated in barley as liabilities for crop-sharing rents and water fees. These debts, owed to the temple-state public financial system, were forgiven, but not the debt denominated in silver (already 'the money of the world'), incurred by traders as commercial debt.

Hudson, Michael; C Wunsch (2004): ***Creating economic order. Accounting in the Ancient Near East.***

82. Babylonians did better than us

The global financial liberalization unfolding since the 1980s coincided (in most developed economies) with financial policies stimulating credit expansion but without enough prudential measures. Banks exploited these opportunities for debt creation by engaging in securities trading (trying to manipulate asset prices), downplaying their traditional functions as deposit takers and credit providers. Public support to banks continued with bank bailouts and the real sector of the economy suffered the consequences (more unemployment, firms closing down, families losing their homes). These policies implicitly considered the lack of credit as the problem, when the real problem is excessive debt: governments helped the creditors (banks) instead of the debtors (families, firms). (When debt is built up, it creates the illusion of wealth.) The inverse of the clean slate policy is policy in support of creditors, which treats the symptom (the credit crisis) not the cause (debt overhead). Allowing creditors to pursue debtors makes economic recovery almost impossible: a debt workout should be preferable to a bank bailout.

Bezemer, Dirk J. (2009): "This is not a credit crisis –it is a debt crisis", Economic Affairs.

83. Hypocrisy or challenge of policy paradigm during the 2008 global financial crisis?

The IMF, and most economists, gave support during the 2008 global financial crisis to policy measures different from those (based on unfettered markets and uncontrolled capitalism) advocated during the 1997 Asian financial crisis: bank rescue plans (bank bailouts), bank nationalizations (government purchases of banks), strong expansionary policies (fiscal stimulus plans), near-zero interest rates, massive quantitative easing programmes (purchases of government bonds and other privately-issued financial assets), huge public deficits (two-digit deficit-to-GDP ratios), discussion of more strict financial regulation, consideration of the elimination of tax havens…

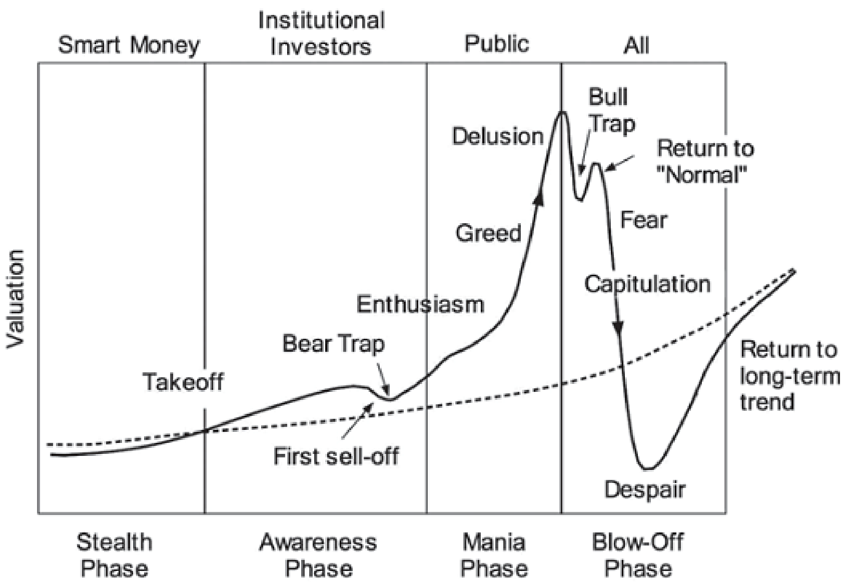
- The policy prescriptions by the most orthodox economists amount to closing the central banking, dismantling regulations and keeping the government budged balanced.

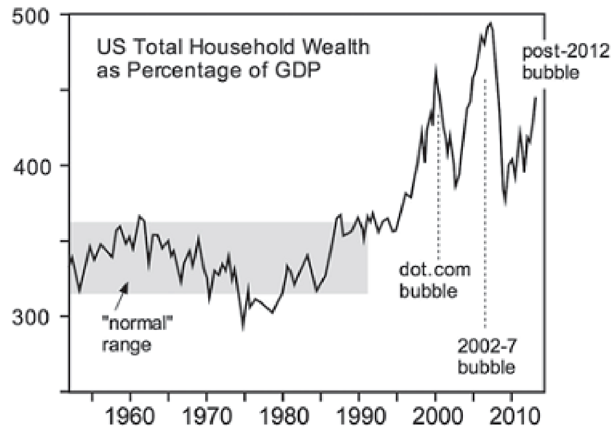
- "When things go really wrong, neoclassical theories are thrown out of the window, being replaced by more pragmatic and realistic theories. With public deficits, governments are hopeful that aggregate demand will be sustained and that corporate profits will recover."

Lavoie, Marc (2011): "The global financial crisis: Methodological reflections from a heterodox perspective", Studies in Political Economy 88(1), 35-57.

Paradox of thrift (Keynes)	Higher saving rates lead to reduced output
Paradox of costs (Kalecki)	Higher real wages lead to higher profit rates
Paradox of public deficits (Kalecki)	Government deficits raise private profits
Paradox of debt (Steindl)	Efforts to de-leverage might lead to higher leverage ratios
Paradox of tranquillity (Minsky)	Stability is destabilizing
Paradox of liquidity (Nesvetailova)	New ways to create liquidity end up transforming liquid assets into illiquid ones
Paradox of risk (Wojnilower)	The availability of individual risk cover leads to more risk overall

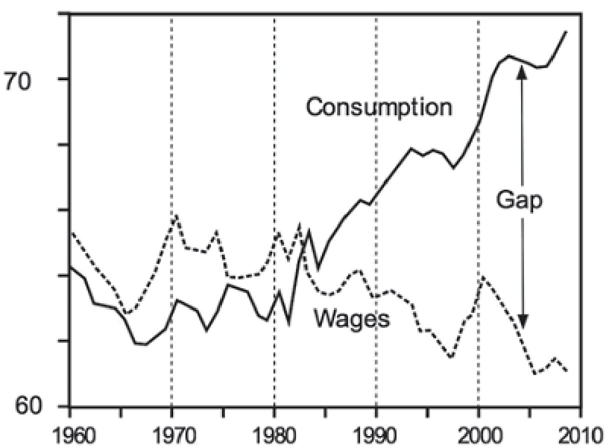
Crisis-related macroeconomic paradoxes (Lavoie, 2011, p. 46)

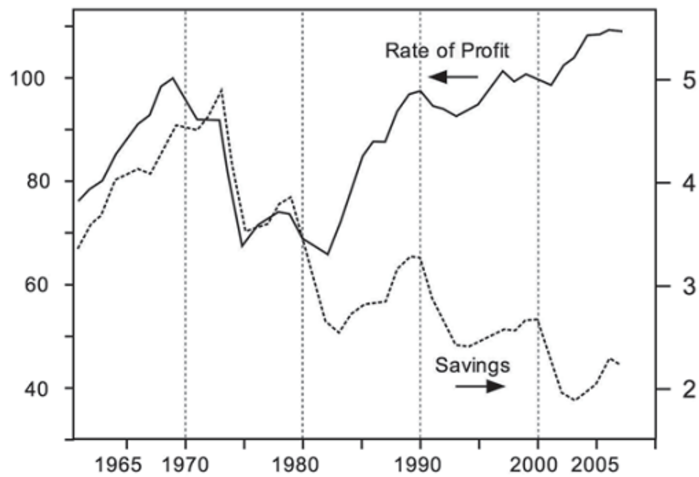




Stylized stages of a boom, bubble, bust, and recovery US household wealth with respect to GDP

Rapp, Donald (2015): *Bubbles, booms, and busts: The rise and fall of financial assets*, pp. 19 and 24





Shares of consumption & wages in GDP (US, EU, Japan) Rates of profit & savings (US, EU, Japan)

Rapp, Donald (2015): *Bubbles, booms, and busts: The rise and fall of financial assets*, p. 25

84. A policy dilemma for central banks

Central banks face a policy dilemma in a booming/bubble economy: action vs inaction. Suppose borrowing and spending is considered excessive, with indebtness growing alarmingly and the typical economic agent being relucntat to save. There are two options.

- Option 1: puncture the bubble. The typical measure to try to discourage borrowing and spending is to raise the interest rate. But this rise may result in a sharp contraction in economic activity. In this case, borrowing and spending appears insufficient.
- Option 2: let the boom continue and the bubble burst. If no policy is adopted to control or regulate the high levels of borrowing and spending, a worse contraction may occur when it is realized that the levels of borrowing and spending can no longer be sustained.

Financial activities were liberalized during the 1970s and 1980s. The liberalization transferred the control of the financial sector from the public to the private sector by removing controls over financial flows. The financial liberalization allowed the accumulation and international circulation of large amounts of money and also permitted interest rates to be established in the financial sector itself without substantial public interference. The empirical evidence makes the following sequence appear plausible:

financial deregulation → free mobility of capital and no credit control → debt increase every-where (by governments, firms, households…) → threat to financial stability → financial crises.

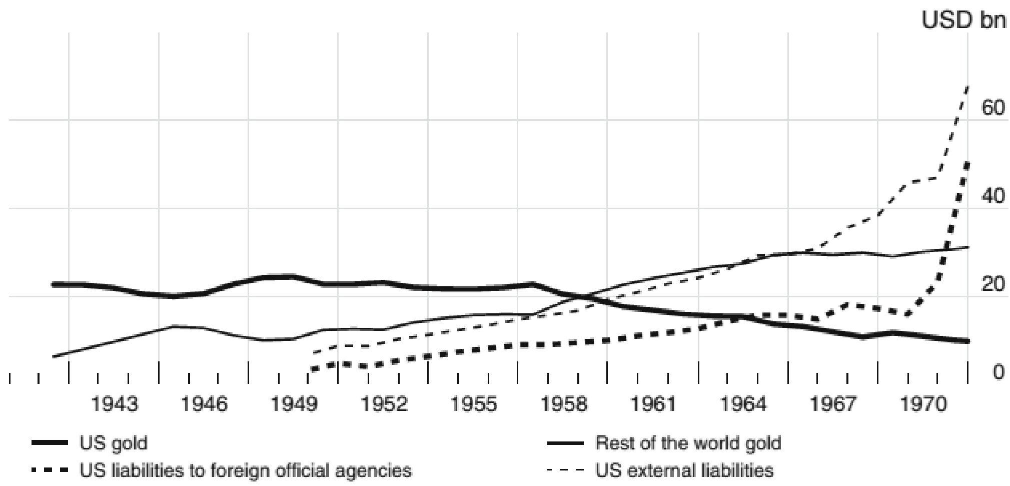
85. Barry Eichengreen's four main determinants of financial crises and instability

- Unsustainable macroeconomic policies
- Fragile financial systems
- Institutional weaknesses
- Flaws in the structure and operation of international financial markets (booms and busts in capital flows, followed by significant contagion effects, may be caused by information asymmetries, herd behaviour and competitive pressures).

86. Barry Eichengreen's types of financial instability and possible policy solutions

- Types of financial instability: banking crises, currency crises and twin crises (a banking crisis that occurs at the same time as a currency crisis).
- Policy solutions: (i) reregulation of domestic financial markets to address a banking crisis; (ii) reimposition of capital controls to address a currency crises; (iii) creation of a single global currency; and (iv) definition of an international financial solution. Eichengreen considers the last two as better options in terms of a cost-benefit analysis.

87. The Triffin dilemma (Robert Triffin, 1960)



Triffin predicted the end of the Bretton Woods system, which relied on the credibility of the commitment of the convertibility of dollars into gold. Triffin argued that the system faced a dilemma. On the one hand, to meet the international liquidity needs (which were growing with an expansionary world economy), a sufficient amount of dollars should circulate; that is, foreign dollar balances should increase. But, on the other, a large and growing proportion of foreign dollar balances with respect to US gold reserves endangers the credibility of the convertibility commitment. Hence, if the US international liabilities grow too slowly, global trade is restrained and deflation may ensue; but if the US international liabilities grow too much (to satisfy the demands of a growing international trade), the dollar would lose value against gold and a run on the US gold stock will precipitate the downfall of the system. The chart on the right illustrates how the Bretton Woods system broke down.

88. The safe assets dilemma: A new Triffin dilemma?

The Triffin dilemma was the discovery that the unbalanced growth of certain macrofinancial magnitudes could generate systemic instability. The safe assets dilemma would provide another instance of this principle of instability fuelled by unsustainable growth. Specifically, the Triffin dilemma highlights the possibility that the global demand for a stock (US international liabilities) would outgrow the US official holdings of another stock (gold). The safe assets dilemma points out another financial trouble: the possibility that the global demand for another stock (US Treasury liabilities) would outgrow a flow (the US GDP, a flow that provides the taxes needed to service the Treasury's debt).

89. Fundamental problems of the international monetary system I: A Triffin general dilemma

Tommaso Padoa-Schioppa suggested in 2010 a 'Triffin general dilemma': "the stability requirements of the system as a whole are inconsistent with the pursuit of economic and monetary policy forged solely on the basis of domestic rationales in all monetary regimes devoid of some form of supranationality." In particular, as during the Bretton Woods era, the US monetary policy strongly influences global monetary conditions; yet, this policy is conducted without taking into account its international repercussions. In general, the US use its privileged economic status to its own advantage, letting the rest bear the costs of the colateral effects the US decisions cause abroad (the global financial crisis, started in mid-2007 in the US, could be a case at hand; the collapse of the Bretton Woods system, another).

Triffin, Robert (1960): *Gold and the dollar crisis. The future of convertibility*, Yale University Press.

Campanella, Edoardo (2010): "The Triffin dilemma again", Economics: The Open-Access, Open-Assessment E-Journal 4, 2010-25. doi:10.5018/economics-ejournal.ja.2010-25.

Pozsar, Zoltan (2011): "Institutional cash pools and the Triffin dilemma of the U.S. banking system", Working Paper 11/190, IMF (also published in Financial Markets, Institutions & Instruments, 2013).

Maes, Ivo (2013): "On the origins of the Triffin dilemma", European Journal of the History of Economic Thought 20(6), 1122-1150.

Bordo, Michael D.; Robert N. McCauley (2016): "The current account version of the Triffin dilemma", Atlantic Economic Journal, DOI 10.1007/s11293-016-9499-1.

Bordo, Michael D.; Robert N. McCauley (2017): "A global shortage of safe assets: A new Triffin dilemma?", Atlantic Economic Journal, DOI 10.1007/s11293-017-9558-2.

Davis, Ann E. (2018): "The new Triffin dilemma", Review of Radical Political Economy 1-8.

90. Fundamental problems of the international monetary system II: Bias against deficit countries

The present international monetary system has a bias against countries with current account deficits. Since countries running a current account surplus have in general no incentive to eliminate the surplus, the burden of the adjustment of international trade imbalances falls exclusively on deficit countries (a point already made by J. M. Keynes). If the deficit countries do not receive the financing need to handle the adjustement or the surplus countries do not pursue more expansionary policies to neutralize the global contractionary effects of the adjustment by deficit countries, the impact of the adjustment on the world economy will be contractionary.

- In connection with this bias, the absence of a cooperative international system to manage exchange rate fluctuations has increased currency speculation and global imbalances.
- Global (or at least multilateral) exchange rate arrangements appear necessary to maintain global stability, to avoid the risk of collapse of the global trading system and to facilitate adjustment in crisis-stricken countries.

91. Fundamental problems of the international monetary system III: Rich-country bias

The present international monetary system is not equitable. Developing countries have a need to accumulate international reserves. These reserves are typically issued by developed (rich) economies. Consequently, developing countries are compelled to transfer resources to developed countries to obtain international reserves. Financial liberalization and the pro-cyclical nature of the capital flows destined to developing countries (foreign capital quickly flies from a developing country with disappointing growth performance) have magnified the inequity bias. In this context, developing countries have been forced to accumulate international reserves in excess as a precaution against sudden or intense contractions in international financing.

- In that respect, it appears that, from the point of view of developing countries, the first role of international financial institutions should be the ability to counteract the pro-cyclical effects of financial markets.
- Not paradoxically, the same financial markets that create trouble in developing countries subject those countries to crisis ratings reinforcing the rich-country bias.

92. Lessons from debt crises in developing countries

- The crisis is preceded by massive net inflows of foreign capital (taking many forms: bank loans, portfolio investment —bonds, shares— and direct investment).
- The foreign funds were mostly used, a few years before the crisis unfolded, to finance growing current account deficits.
- Net outflows (of bank credit and/or portfolio disinvestment) trigger the crisis.
- Intense currency devaluations follow, accompanied by the suspension of foreign debt repayment (public and/or private) and the insolvency of companies and financial institutions.

93. Political reaction to international financial crises

"There is a remarkably simple observation about how political systems reacted to the Depression, reflecting what happens when an international financial system freezes up. Countries that owed money and were now cut off from more borrowing saw no virtue in continuing to depend on an international system that had let them down and moved toward economic isolationism and political authoritarianism. Countries to whom money was owed sustained smaller economic damage and remained wedded to democracy and the international economy. Even within continents and among neighboring countries this rule held."

Beattie, Alan (2009): *False economy. A surprising economic history of the world*, Riverhead Books, New York.

94. Finance and Wall Street

"One of the most shocking aspects of the financial services annex to TISA [the Trade in Services Agreement], distributed by WikiLeaks, is that it shows that the world's deepest economic crisis since the Great Depression has done nothing to alter the financial orthodoxy of the world's leading states. The American empire is still evidently committed to the same financial regulatory model as it was in the days of the 'goldilocks economy,' when Wall Street was booming and the internet was still on dial-up."

"Finance came to be understood as the true epitome of capitalism and was linked to the virtues of innovation, dynamism, and the allure of testosterone-driven aggression and risk-taking. With great risks, after all, came great rewards. And countries of the South were told that, if they opened their financial markets, the flows of 'hot' cash would kick-start their slow economies. Such claims were pure myth-making: most of the movements of money in financial markets have nothing to do with kick-starting investment in the productive sector. They are bets—

increasingly elaborate and risky gambling instruments, through which investors hope to make a royalty (…) The profits of investment in, for example, capital markets, are essentially a drain on productive investment. There is certainly little empirical evidence of a link between financial 'innovation' and enhanced growth."

"Wall Street banks have become the strategic nerve centers not only of financial capital, but of the world economy as such. In the United States, between 1973 and 2007, as a result of politically driven changes to the domestic and global economy, financial profits rose from 16 percent to 41 percent of total profits in the US economy. Wall Street accounts for just over a third of total global financial transactions (…) The centrality of the dollar and Wall Street to the global system furnishes far too much political leverage to Washington for there to be any appetite to relinquish it—which would imply not bringing the banks to heel, but also reforming global trade institutions and the US state itself."

"The dominance of Wall Street is reminiscent of British domination of world trade in the nineteenth century, in that US interests have in a way become synonymous with those of the world. If it goes down, we all go down."

Assange, Julian et al. (2015): *The WikiLeaks files. The world according to US empire*, Verso, London and New York.

95. Local money and the globalization of capital

"Uneven development is an inherent characteristic of the globalisation of capitalism which stems from the propensity of capital to flow to locations which offer the greatest potential return. The differential use of space by capital in pursuit of profit creates a mosaic of inequality at all geographic scales, from global to local (…) However, when the 'normal business' of the capitalist economic system is disrupted by crisis, the uneven economic and social consequences are amplified."

"Globalisation is a highly uneven set of processes whose impact varies over space, through time, and between social groups (…) Local people and places may be overwhelmed and exploited by the forces of globalisation, or they may seek to resist, adapt or turn globally induced change into an opportunity (…) The problems of poverty and deprivation experienced by people and places marginal to the capitalist development process have intensified over recent decades."

"… globalisation does not lead automatically to the disintegration of local life (…) globalisation may promote a search for local identity in a mobilised world (…) One local response to the globalisation of capitalism is the creation and circulation of a local currency."

Pacione, Michael (2011): "Local money – A response to the globalisation of capital?," Quaestiones Geographicae 30(4), 9-19.

96. Local currency

"Robertson (1989) [Robertson, J. (1989): *Future wealth: A new economics for the 21st century*, Cassell, London] envisaged a hierarchy of money with a world currency for use in international trade, national currencies for use in national trading, and local currencies for use in local trading, together with regional or continental currencies (such as the Euro) (…) A principal argument in favour of local currencies is that when localities are dependent entirely on national currency as a medium of exchange to facilitate local economic activity, any decline in local competitiveness within the national or international economy can result in a shortage of money in local circulation even for internal economic purposes within the locality. This leads to the situation experienced in many formerly flourishing industrial cities in Europe and North America where local unemployment rises and local assets remain underutilised, while local needs remain unmet."

"A local currency can stem the leakage of money out of the local economy. In addition, use of a local currency retains local control over investment decisions which is lost even when local capital is 're-imported' via distant financial institutions. A local currency also encourages individuals and businesses to support each other rather than buying from outside the community, and can help to meet the credit needs of small businesses, thereby stimulating the local economy and diversifying its economic base. Another related advantage is that a local currency can generate local employment by overcoming the mismatch between the shortage of money and the excess of work required to be done in any local economy. In general, people will be prepared to work in return for a local currency in which they have confidence."

"A second principal advantage of a local currency lies in its ability to reduce dependency on transfer payments in the form of central government welfare benefits, economic grants and annual council spending budgets (…) A final advantage of a local currency is that, in certain forms, it can facilitate a non-inflationary monetary system."

"A local currency cannot insulate the local economy from the negative effects of globalisation, but it can afford a degree of protection against the spatially-insensitive currents of the international financial system. A combination of alternative financial institutions such as credit unions and local exchange trading systems, and a publicly-issued local currency has the potential to re-invigorate localities (…) The introduction of a local currency has the capacity to stimulate the social and economic regeneration of a community."

Pacione, Michael (2011): "Local money – A response to the globalisation of capital?," Quaestiones Geographicae 30(4), 9-19.

97. Local currencies: Massachusetts BerkShare, Detroit dollar, Bristol pound (Douglas Rushkoff, 2016)

"The simplest approach to limiting the delocalizing, extractive power of central currency is for communities to adopt their own local moneys, pegged or tied in some way to central currency. One of the first and most successful contemporary efforts is the Massachusetts BerkShare, which was developed to help keep money from flowing out of the Berkshire region. One hundred BerkShares cost ninety-five dollars and are available at local banks throughout the region. Participating local merchants then accept them as if they were dollars—offering their customers what amounts to a 5 percent discount for using the local money. Although it amounts to selling goods at a perpetual discount, merchants can in turn spend their local currency at other local businesses and receive the same discounted rate. Nonlocals and tourists purchase goods with dollars at full price, and those who bother to purchase items with BerkShares presumably leave town with a bit of unspent local money in their pockets."

"Simple, dollar-pegged local currencies like BerkShares are depending on what is known as the local multiplier effect. Money of any kind, even regular old dollars, spent at local businesses tends to stay within the local economy. That's because local, independent businesses tend to source their materials and services from nearby instead of from some distant corporate headquarters. According to a broad study (…) 48 percent of each dollar spent at locally owned retailers recirculates through the community, compared with 14 percent at chain stores. With geographically limited local currencies, that number stays close to 100 percent, until they are exchanged back into dollars. Such currencies are biased against extraction and toward velocity (…) With geographically based currencies, the thinking goes, the 'buy local' ethos becomes visible (…) Local currencies are their own best publicity, rendering 'buy local' visible and thereby fostering the community spirit and soft peer pressure that lead to widespread buy-in and network effect (…) Many other communities are experimenting with variations on the BerkShare model. Proponents claim that by being removed from the greater economy, these currencies work against the scarcity bias of central currency and are more resistant to boom, bust, and bubble cycles. Detroit Dollars, Santa Barbara Missions, and, in the UK, the Bristol, Brixton, and Cumbrian Pounds each offer their particular variations. Detroit Dollars offer much the same arrangement as BerkShares, only at a 10 percent discounted exchange rate. The UK's Bristol Pound is backed by a credit union, has a digital debit payment system, and can be used by businesses to pay certain taxes. A pilot program in Nantes, France, promises to allow citizens to pay municipal fees in local currency."

98. Lessons from the history of financial crises

- "The history of financial crises shows that there is a crisis somewhere in the world about every decade."
- "Fiscal and financial crises have been increasingly linked together by the increased use of government guarantees of financial intermediaries."
- "Government rescues to avoid the costs of old-fashioned banking panics have led to more virulent modern banking crises."
- "There is a trade-off between the costs of financial crises that accompany financial development and growth and the moral hazard costs of insurance."
- "Eliminating crises entirely is not desirable, but letting them burn out without intervention is also not ideal."

Bordo, Michael D. (2018): "Reflections on the evolution of financial crises: Theory, history and empirics", chapter 1 in Rockoff, Hugh; Isao Suto; eds. (2018): *Coping with financial crises. Some lessons from economic history*, Springer, Singapore.

99. Hallucinated wealth (John Michael Greer, 2008)

"It surprises me how many people still seem to think that the main business of a modern economy is the production and distribution of goods and services. Far and away the majority of economic activity nowadays consists of the production and exchange of IOUs. The United States has the world's largest economy not because it produces more goods and services than anyone else — it hasn't done that for decades — but because it produces more IOUs than anyone else, and it sells those IOUs to the rest of the world in exchange for goods and services."

"The resulting IOU economy is highly unstable because hallucinated wealth has value only as long as people believe it does. The history of modern economics is thus a chronicle of booms and busts, as tidal shifts in opinion send various classes of IOUs zooming up in value and then crashing back down to Earth. Crashes, far from being signs of breakdown, are a necessary and normal part of the process. They serve the same role as laundry day did in the schoolroom IOU economy: by paring down the total number of IOUs, they maintain the fiction that the ones left still have value."

100. The financial sector's rise to power (Michael Hudson, 2015)

- "A nation's destiny is shaped by two sets of economic relationships. Most textbooks and mainstream economists focus on the 'real' economy of production and consumption, based on the employment of labor, tangible means of production and technological potential. This tangible Economy #1 is wrapped in a legal and institutional network of credit and debt, property relations and ownership privileges, while Economy #2 is centered on the Finance, Insurance and Real Estate (FIRE) sector. This 'debt and ownership' economy transforms its economic gains into political control to enforce payment of debts and to preserve property and natural resource or monopoly rent privileges (typically inherited)."
- "Today's banks don't finance tangible investment in factories, new means of production or research and development –the 'productive lending' that is supposed to provide borrowers with the means to pay off their debt. Banks largely lend against collateral already in place, mainly real estate (80 percent of bank loans), stocks and bonds. The effect is to transfer ownership of these assets, not produce more."
- "Borrowers use these loans to bid up prices for the assets they buy on credit: homes and office buildings, entire companies (by debt-leveraged buyouts), and infrastructure in the public domain on which to install tollbooths and charge access rents. Lending against such assets bids up their prices –Asset-Price Inflation."
- "Mainstream policy pretends that economies are able to pay their debts without reducing their living standards or losing property. But debts grow exponentially faster than the economy's ability to pay as interest accrues and is recycled (while new bank credit is created electronically)."
- "Debts that can't be paid, won't be. The question is: how won't they be paid? There are two ways not to pay. The most drastic and disruptive way (euphemized as "business as usual") is for individuals, companies or governments to sell off or forfeit their assets. The second way to resolve matters is to write down debts to a level that can be paid. Bankers and bondholders prefer the former option, and insist that all debts can be paid, given the "will to do so' (…) This is the solution that mainstream monetarist economists, government policy and the mass media popularize as basic morality. But it destroys Economy #1 to enrich the 1 percent who dominate Economy #2."
- "The financial sector (the One Percent) backs oligarchies."
- "Every economy is planned. The question is, who will do the planning: banks or elected governments? Will planning and structuring the economy serve short-term financial interests (making asset-price gains and extracting rent) or will it promote the long-term upgrading of industry and living standards?"

Hudson, Michael (2015): *Killing the host. How financial parasites and debt bondage destroy the global economy*, CounterPunch Books, Petrolia, California.

101. Michael Hudson's (2015) ten reforms to restore industrial prosperity

1. Write down debts with a Clean Slate, or at least in keeping with the ability to pay
2. Tax economic rent to save it from being capitalized into interest payments
3. Revoke the tax deductibility of interest, to stop subsidizing debt leveraging
4. Create a public banking option
5. Fund government deficits by central banks, not by taxes to pay bondholders
6. Pay Social Security and Medicare out of the general budget
7. Keep natural monopolies in the public domain to prevent rent extraction
8. Tax capital gains at the higher rates levied on earned income
9. Deter irresponsible lending with a Fraudulent Conveyance principle
10. Revive classical value and rent theory (and its statistical categories)

102. Two views of the financial world

The orthodox view of the financial markets holds that asset prices are determined by rational predictions of future fundamentals. In the heterodox view asset prices are driven by confidence (which makes prices more volatiles because confidence is more unstable than fundamentals).

- The Efficient Market Hypothesis (EMH). The EMH holds that the market price of an asset reflects the asset's true value, so market prices are always 'correct'. According to EMH, (i) changes in asset prices are caused by external shocks, like new information related to the asset and (ii) there do not exist asset price bubbles nor asset price busts: sudden or intense asset price swings are merely the response by buyers and sellers of the assets to changes in the fundamental variables that determine the 'real' value of the asset.
- The Financial Instability Hypothesis (FIH). The FIH contends that the financial sector is inherently unstable because forces endogenous to the sector generate cycles of credit expansion/asset inflation and credit contraction/asset deflation.

The EMH and the FIH are both theories of what makes financial prices move. The EMH claims that market forces lead the market to an equilibrium state. This state is stationary in the sense that the market will not be pushed to another (stationary, equilibrium) state unless some unexpected external event (a 'shock') hits the market. The FIH asserts that the dynamics of financial markets is naturally unstable: left by themselves such markets show no tendency to reach stationary states. Destabilizing forces prevent financial markets from achieving efficient states and producing optimal outcomes.

For the FIH to be true, it is necessary to identify built-in destabilizing mechanisms. In a typical debt market, institutions accept deposits, which are subsequenly lent. To get high profits in this business it is in general associated with charging a high interest in loans. The basic strategy to obtain a high interest rate is to accept more risk by lending, for the longest period, to the least-reliable borrowers. But a high-risk lending strategy increases the risk of not being repaid, which in turn increases the probability of not returning the deposits and thereby destabilizing the market (because of a run on the institutions that accept diposits). The source of potential instability is the fact that achieving higher returns involves taking higher risks, which endangers the normal, stable operation of the market.

Bank runs seem to contradict the EMH: they are serious threats to the stability of the banking sector. Feedback processes (like speculative bubbles) have the potential of being inconsistent with the logic of the EMH. The EMH requires independence from the past: the transition from today's price of an asset to tomorrow's price must be essentially random. No immediate tendency of the evolution of the price should be predictable. By contrast, a feedback process is memory-driven: what has just happen affects in a very significant way what is going to happen next. For instance, if many people start withdrawing money from a bank, it is likely that additional clients will withdraw their funds, which is turn increases the likelihood of more future withdrawals. In view of this, a test to establish which of the two hypothesis is more accurate to describe the financial sector is how much memory possess the mechanisms at work in the financial sector: memoryless mechanisms tend to provide support to EMH; memory-driven mechanisms, to FIH

Cooper, George (2008): *The origin of financial crises. Central Banks, credit bubbles and the efficient market fallacy*, Harriman House, Hampshire, Great Britain.

Minsky moment

The Wile E. Coyote moment as a metaphor for the Minsky moment

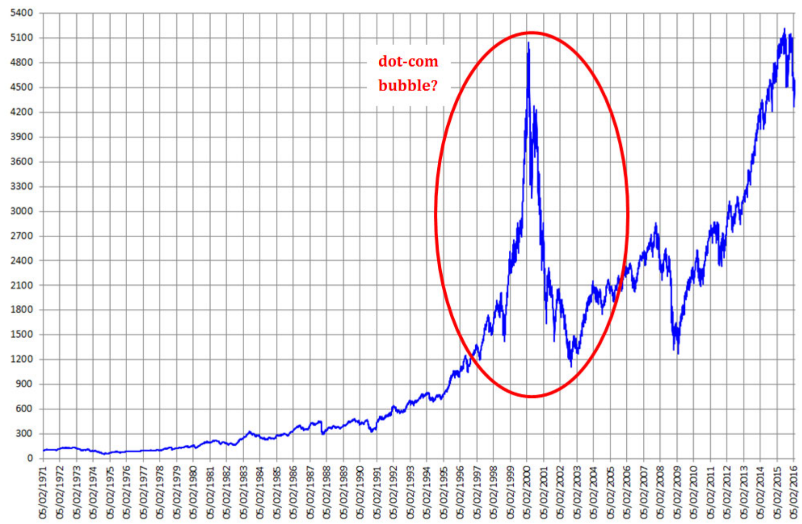
Named after the American economist Hyman Minsky (1919-1996), a Minsky moment is a situation where asset prices suffer a sudden and precipitous collapse as a result of an excessive speculation, financed by borrowed money, that forces speculators to start a major sell-off to pay back the loans.

Farmer, Roger E. A. (2010): *How the economy works*, Oxford UP, p. 92

https://en.wikipedia.org/wiki/Minsky_moment

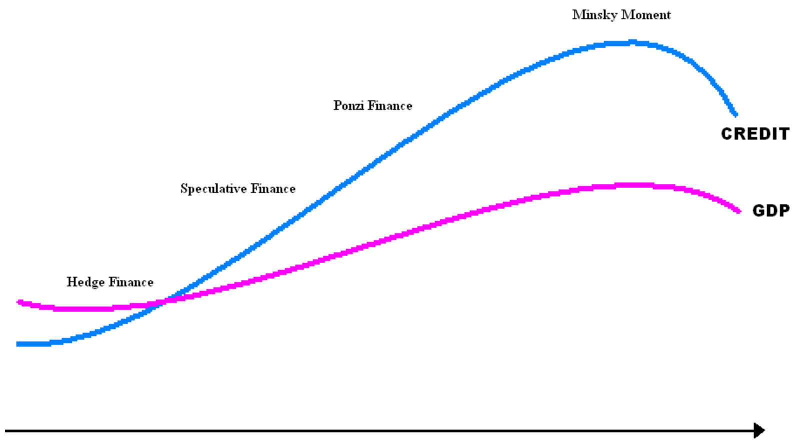
http://www.disneycharacters.net/data/media/7/Wile_E_Coyote_Fall_Cartoon_Image.jpg

"According to Minsky's view, the natural state of an economic system is one of recurrent expansions and crashes that are characterized by credit crises. A Minsky moment is the point when the house of cards comes tumbling down and the economy moves from boom to crash."



The NASDAQ Composite, 5 Feb 1971-29 Feb 2016

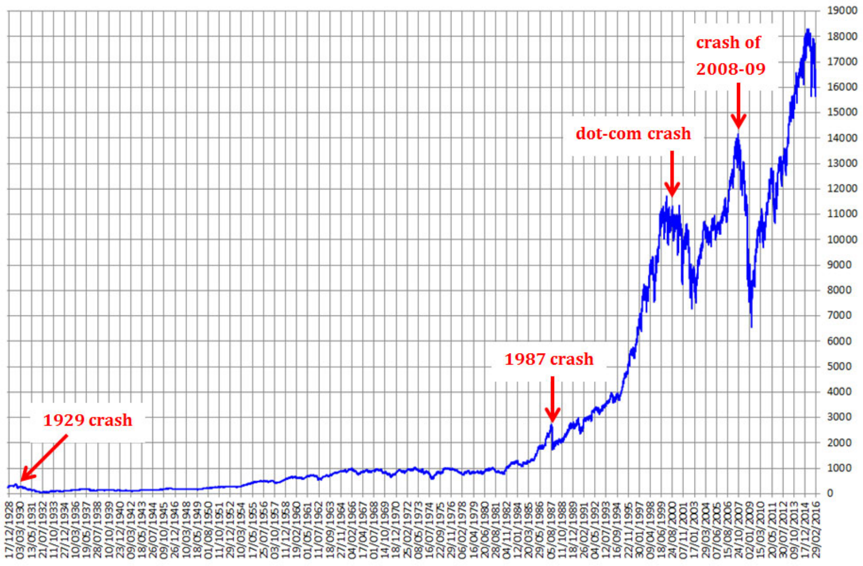
http://finance.yahoo.com/q/hp?s=^IXIC&a=01&b=5&c=1971&d=02&e=1&f=2016&g=d



Stylized representation of the Minsky cycle

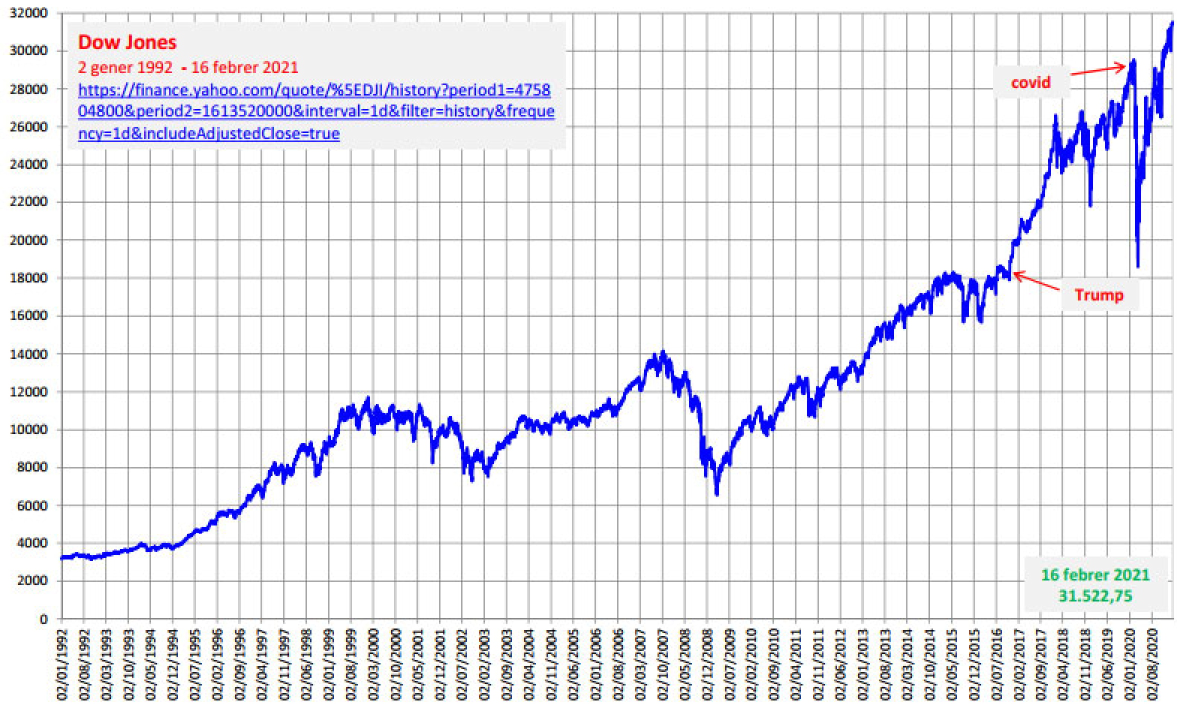
https://en.wikipedia.org/wiki/File:Stylized_Minsky_Cycle.PNG

"A Minsky moment is a sudden major collapse of asset values which is part of the credit cycle or business cycle. Such moments occur because long periods of prosperity and increasing value of investments lead to increasing speculation using borrowed money. The spiraling debt incurred in financing speculative investments leads to cash flow problems for investors. The cash generated by their assets no longer is sufficient to pay off the debt they took on to acquire them. Losses on such speculative assets prompt lenders to call in their loans. This is likely to lead to a collapse of asset values. Meanwhile, the over-indebted investors are forced to sell even their less-speculative positions to make good on their loans. However, at this point no counterparty can be found to bid at the high asking prices previously quoted. This starts a major sell-off, leading to a sudden and precipitous collapse in market-clearing asset prices, a sharp drop in market liquidity, and a severe demand for cash."



Dow Jones Industrial Average, 1 Oct 1928 -29 Feb 2016

http://finance.yahoo.com/q/hp?s=^DJI&a=00&b=11&c=2010&d=01&e=29&f=2016&g=d&z=66&y=1254



103. Paradox of efficient markets

"… if you think a market is efficient—efficient enough that you can't really beat it for a profit—then it would be irrational for you to place any trades. In fact, efficient-market hypothesis is intrinsically somewhat self-defeating. If all investors believed the theory—that they can't make any money from trading since the stock market is unbeatable—there would be no one left to make trades and therefore no market at all."

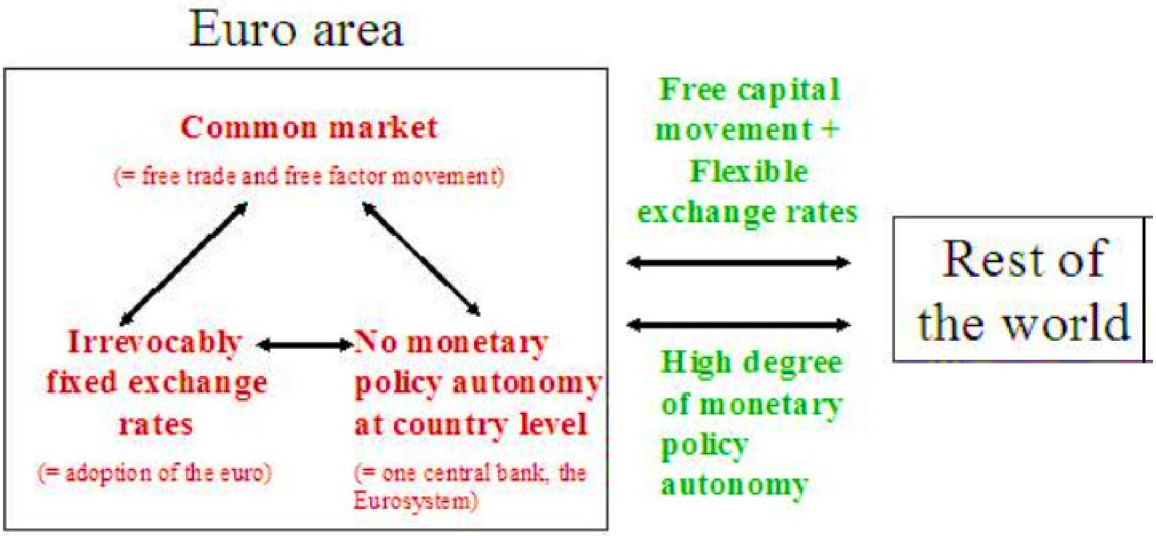
Silver, Nate (2012): *The signal and the noise. Why most predictions fail but some don't*, Penguin Press, New York.

104. The inconsistent quartet (Tommaso Padoa-Schioppa, 'founding father' of the euro)

The open economy trilemma asserts a financial impossibility: under free international mobility of capital (there is no capital control), if it is not possible for an economy to control at the same time the foreign price of its currency (the nominal exchange rate) and its domestic price (the nominal interest rate).

Tommaso Padoa-Schioppa suggested, in 1982, a variant of the open economy trilemma. In this variant, four apparently desirable goals (the inconsistent quartet, *quartetto inconciliabile*) cannot be simultaneously achieved.

According to Padoa-Schioppa, a group of countries (such as the European Union) cannot have free trade, international capital mobility, independent domestic monetary policies and fixed exchange rates.



Padoa-Schioppa's view of the open economy trilemma (taken from Bini Smaghi, 2011)

Bini Smaghi, Lorenzo (2011): "Tommaso Padoa-Schioppa: Economist, policymaker, citizen in search of European unity", Speech given at the European University Institute, Fiesole, 28 January 2011.
https://www.ecb.europa.eu/press/key/date/2011/html/sp110128.en.html

105. Will money ever become obsolete? (*The Orville*, Season 1, Episode 11)

"It [money] became obsolete with the invention of matter synthesis. The predominant currency became reputation (…) Human ambition didn't vanish. The only thing that changed was how we quantify wealth. People still want to be rich, only now rich means being the best at what you do."

106. Moneyland

"You follow a white rabbit down a hole, the tunnel dips suddenly and, before you know it, you find yourself falling down a very deep well into a new world. It's a beautiful place, if you're rich enough to enjoy it. If you're not, you can only glimpse it through doors you lack the keys for. I call this new world Moneyland – Maltese passports, English libel, American privacy, Panamanian shell companies, Jersey trusts, Liechtenstein foundations, all add together to create a virtual space that is far greater than the sum of their parts. The laws of Moneyland are whichever laws anywhere are most suited to those wealthy enough to afford them at any moment in time. If a country somewhere changes the law to restrict Moneylanders in any way, they shift themselves or their assets to obey another law that is more generous. If a country passes a generous law that offers new possibilities for enrichment, then the assets shift likewise. It is as if the very wealthiest people in countries like China, Nigeria, Ukraine or Russia have tunnelled into this new land that lies beneath all our nation states, where borders have vanished. They move their money, their children, their assets and themselves wherever they wish, picking and choosing which countries' laws they wish to live by. The result is that strict regulations and restrictions do not apply to them, but still constrain the rest of us. This is a phenomenon with novel consequences that go to the heart of what a government is supposed to be for."

"The Orange Revolution failed to end corruption. If anything, things got worse. It is so easy to steal money and stash it in Moneyland, where it will be safe for ever, that it takes an effort of will not to join in, particularly in countries without strong institutions or independent law enforcement. And the lessons of Ukraine apply to Nigeria, Malaysia and Afghanistan, too. These countries are different in language, culture, religion and almost everything else, but if you look at them from the perspective of money, such distinctions vanish. Wherever money is stolen from, it ends up in the same places: London, New York, Miami. And wherever it ends up, it is laundered in the same ways, through shell companies or other legal structures in the same handful of jurisdictions."

"Moneyland is more like an ant hill than a traditional organisation. In an ant hill, the individual ants are not obeying instructions (…) The ants are responding in a predictable manner to external stimuli. In Moneyland, the individual lawyers, accountants and politicians are also responding in a predictable manner. If a law is helpful to any aspect of a rich person's existence, Moneyland's enablers make sure the rich person can enjoy the benefits of that law wherever and whatever it is, to the greater good of the rich person and to the detriment of the rest of us. If you squash one ant, or arrest one crooked lawyer, the activities of the rest will continue unaffected. It is the whole system that must be changed, and this is hard."

107. Moneyland as the dark side of globalization

"Globalisation's defenders counter-argue that by allocating capital to wherever it can work most efficiently, it has lifted more people out of poverty in China, India and elsewhere than any other movement ever. Moneyland is where globalisation acts differently. It is not a function of capital being allocated efficiently to garner the greatest return for its owners, but of capital being allocated secretly to gain the greatest degree of protection. This is the dark side of globalisation, and there is no positive case to be made for it, unless you are a thief or a thief's enabler. Moneyland is not an easy place to confront, however. You can't send in an army against it, since it doesn't feature on any maps. Nor can you implement sanctions against it, or send diplomats to talk it round. Unlike conventional countries, it has no border guards to stamp your passport, no flag to salute and no foreign minister to talk to on the phone. It has no army to protect it, because it doesn't need one. It exists wherever there is someone who wants to keep their money out of the reach of their country's government, and who can afford the lawyers and financiers required to do so. If we wish to preserve democracy, however, we must confront Moneyland's nomad citizens, and find a way to dismantle the offshore structures that make it so easy for them to hide their money from democratic oversight. They are at least as significant a threat to the rules-based order that seeks to make the world safe as the terrorists and dictators we read about every day."

"Why do so many ships fly the flags of foreign countries? Moneyland allows their owners to undercut their home nations' labour regulations. Why do Russian officials prefer to build billion-dollar bridges rather than schools and hospitals? Moneyland lets them steal 10 per cent of the construction costs, and stash it abroad. Why do billionaires live in London? Moneyland lets them dodge taxes there. Why do so many corrupt foreigners want to invest their money in New York? Moneyland protects their assets against confiscation."

"If we accept globalisation, however, we don't need to accept its dark side: the profusion of anonymous money, which is nosing into our politics, our economies and our major institutions. The simple fact about offshore is that it only exists to allow people to do things they couldn't do onshore. Offshore structures allow people to hide their ownership of money, which benefits those with something to be ashamed of, and bewilders everyone else."

"The misery in distant countries will become our misery, too, if we don't help stop it."

"… the problem so far is that those efforts have all been partial, and do not address the root cause of Moneyland, which is that money is international while laws are not. As long as some jurisdictions allow things that other jurisdictions do not, Moneyland's gatekeepers will always find a way of exploiting the mismatches."

108. How large is Moneyland?

"Gabriel Zucman, the French economist who has studied Swiss banking, has tried to make these calculations. By analysing the statistical anomalies that banking secrecy creates, he estimates that 8 per cent of all the world's financial wealth was held in tax havens in 2014: $7.6 trillion, out of a total of $95.5 trillion. Around a third of that was registered in Switzerland, and the rest in Singapore, Hong Kong, the Bahamas, Jersey, Luxembourg, and various other places. And that does not include all the non-financial assets that are owned offshore – art works, yachts, real estate, jewellery – which he thinks may add up to another $2 trillion."

"James Henry, an American economist, came up with a far higher number for the volume of cash it is hiding; he thinks it was $21–32 trillion in 2010."

"Wealthy citizens of the rich countries of north America and Europe own the largest total amount of cash offshore, but it is a relatively small proportion of their national wealth, thanks to the large size of their economies. Zucman estimates it to be just 4 per cent for the United States, around 10 per cent for Western Europe. For Russia, however, 52 per cent of household wealth is offshore, outside the reach of the government. In Africa (taken as a whole), the total is 30 per cent. In the Gulf countries, it is an astonishing 57 per cent."

109. Moneyland and the tension national/global

"This enduring tension – between democratic sovereignty in nation states and the need for international cooperation to control financial flows – will not go away, and will remain a point of opportunity for anyone keen to develop and expand Moneyland. Even large and wealthy countries are vulnerable to lobbying from rich people keen to keep more of their money for themselves, and to pay less into the taxes that support everyone else in society."

"… if you are tempted therefore to say that (…) Moneyland is simply the inevitable result of globalisation, and one that we must accept, please consider what that means. Moneyland is a country that subverts traditional nation states: it is everywhere and nowhere, somewhere 'in the cloud', a new development – a legal construct that is divorced from any place on the map. We cannot see it now, but the stronger it becomes, the more obvious it will be. And it will never be easier to confront than it is today."

Bullough, Oliver (2018): *Moneyland. Why thieves and crooks now rule the world*, Profile Books, London.

110. Views on the 2008 global financial crisis

"Among analyses with a macroeconomic perspective, approaches focusing on policy failure of macroeconomic governance point to macroeconomic imbalances and policy mistakes as key drivers of the crisis (…) In one view, the rise of inequality (among households and among countries) of recent decades (…) was compensated by soaring asset prices and an expansion of credit to households and governments in the years before the crisis, which supported aggregate demand but led to growing indebtedness that finally proved unsustainable (…) Other authors within this first group of approaches point to the role of problematic macroeconomic policy choices– above all, misaligned (…) In this view, political interference in market determination of exchange rates and monetary policy management was to blame."

"… a second group of macroeconomic perspectives stress structural systemic causes of the crisis and barely see room for containing instability within capitalism In the influential framework of Hyman Minsky, modern capitalism is inherently unstable. Phases of prosperity and stability encourage increasing leverage of economic units which inevitably results in excessive financial fragility bound to end in crisis (…) within this second group of approaches have invoked Marx's theories of over-accumulation and the tendency of profit to fall to interpret the crisis as exhibiting fundamental inherent vulnerabilities of the economic system, only temporarily postponed byfinancial sector expansion until the outbreak of the crisis: financial euphoria and bubbles have temporarily covered the waning dynamism of the economic system."

"Most official policy responses to the crisis result from a third group of approaches: sectoral perspectives on the problem, based on analyses of policy mistakes in governing thefinancial sector. In this framework, a mismatch between financial sector developments and prevailing regulatory and supervisory policies is perceived as the main cause of the crisis. The governance failures identified are manifold: the rise of a market-based credit intermediation system ('shadow banking') lacking adequate regulation and supervision was underappreciated before the crisis. The development of new techniques of securitization and rating undermined the quality of credit underwriting and led to excessive financial fragility. A misguided belief in an extensive selfstabilizing quality of financial markets based on self-interest and derivative-based insurance against risky exposure led to an underappreciation of system risk."

"While most of the debate is about details of regulatory and supervisory governance, a fourth group of crisis explanations, adopting a sectoral perspective, contest what they perceive as limitation of the debate to minor adjustments of the existing governance framework. According to this fourth view, the crisis revealed structural problems of a particular subsector of the financial system that call for fundamental reform: the monetary system. Proponents of'Sovereign Money' (…) call for nationalizing money creation, whereas some local initiatives see a promising future in creating their own local substitute for money, Regional Money. Supporters of Modern Monetary Theory (MMT) try to convince the public of the unlimited power of the state to create money, whereas some libertarian technology enthusiasts see this claim as a threat leading them to support Bitcoin as a digital equivalent of gold. These approaches see monetary reform as the key to future crisis prevention (…) Members of the fourth group are moved by a different question than the others: is the misuse of the power to create money the key to understanding the enduring crisis, and is monetary reform instrumental in ending it? Their answer is yes–in their view, the crisis has laid open the illegitimacy of current monetary governance."

111. Monetary reform proposals

Figure 2 *A classification of monetary reform proposals*

	Money as pure asset	Money as credit
Decentralized governance	Bitcoin	Regional Money
Centralized governance	Sovereign Money	Modern Money Theory

"The call for monetary reform expresses the hope of regaining control by redistributing powers in the domain of monetary governance (...) The proposals with the greatest public visibility are Bitcoin, Regional Money, Sovereign Money and Modern Monetary Theory (MMT)."

"Bitcoin is an experiment in creating community- and market-governed money as pure asset (...). The project is conceived as an answer to the alleged threat of financial crisis and inflation seen as inherent to the current monetary system. With respect to political economy, Bitcoin expresses a desire to undo the compromise that put the state and banks in charge of money, and the tax obligations and need to trust promises attached to it. Instead, the concept tries to rebuild an imagined state of economic nature, where markets elect money from among commodities."

"Regional Money concepts favour regional community-governed and credit-based money (...). Their main aim is to protect regional communities against regional deflation allegedly resulting from the existing monetary system. The concept involves a selective withdrawal of participants of local communities from the bargain underlying national monetary governance."

"Sovereign Money opts for a state monopoly in issuing money, which is understood as pure asset (...). Among its key claims is the prevention offinancial crisis that is perceived to result from the current monetary system. In this vision, the bargain underlying the current monetary system has to be undone by eliminating private issuers from the monetary system. Instead, all hopes are put on a sovereign that is freed from the institutional restrictionsunder current monetary governance."

"Chartalism-influenced Modern Monetary Theory (MMT) promotes making extensive use of the leading role played by the state in a hierarchical credit-based monetary system (...). It intends to give the state more monetary power to react to deflation (...) In contrast to the current system, MMT assigns great importance to state financing as a criterion for output legitimacy of the monetary system."

Weber, Beat (2018): *Democratizing money. Debating legitimacy in monetary reform proposals*, Cambridge University Press.

112. Shortcomings of the present international monetary system

"These are (1) the large volatility of exchange rates, (2) the wide and persistent misalignments of exchange rates and huge trade imbalances, (3) the failure to promote greater coordination of economic policies among the leading economic areas, and (4) the inability to prevent international financial crises or to adequately deal with them when they do arise."

113. Characteristics of the present international monetary system

"The present international monetary system has four main characteristics: (1) There is a wide variety of exchange rate arrangements (...) (2) Countries have almost complete freedom of choice of exchange rate regimes. All that is required by the 1978 Jamaica Accords (which formally recognized prevailing exchange rate arrangements) is that nation's exchange rate actions not be disruptive to trade partners and the world economy. (3) Exchange rate variability has been substantial. This is true for nominal and real, bilateral and effective, short-run and long-run exchange rates. The IMF (2004) estimated that exchange rate variability has been about 5 times larger during the period of flexible (i.e., since 1971) than under the preceding fixed exchange rate or Bretton Woods System. Exchange rate variability of 2–3 percent per day and 20–30 percent per year has been common under the present system (...) (4) Contrary to earlier expectations, official intervention in foreign exchange markets (and therefore the need for international reserves) has not diminished significantly under the present and more flexible exchange rate system as compared with the previous fixed exchange rate system. Nations have intervened in foreign exchange markets not only to smooth out day-to-day movements, but also to resist trends, especially during the 1970s and since the mid-1980s."

Salvatore, Dominick (2012): "Exchange rate misalignments and the present international monetary system", Journal of Policy Modeling 34(4), 594-604.

Salvatore, Dominick (2011): "The future tri-polar international monetary system", Journal of Policy Modeling 33(5), 776-785.

114. International monetary system: reform causing instability?

"The monetary system was reshaped in the mid-1940s in the aftermath of the Second World War and again in the early 1970s after the first oil price shock. In both cases, global disruption shook the monetary system and caused prolonged instability. The question now is whether the current system of floating currency blocs with dollar-based trade and reserves can withstand the strains of the global adjustment ahead. It is time to consider alternatives for the IMS and to address the issue of its governance within the context of the postcrisis world economy. The IMS is where tensions from globalization—and the conflict between domestic policy goals and international obligations—tend to coalesce."

115. Towards a multi-currency system?

"In the US, domestic priorities for growth and employment may lead to an attitude of 'benign neglect' vis-à-visthe dollar, which generally results in a weaker dollar. The current strength of the US currency, which reflects global risk aversion, with investors attracted to the dollar because of its role as key reserve currency, undermines this stance. Meanwhile, China—now the world's largest exporter as well as the largest holder of dollar assets—faces inflationary pressures as a result of keeping its currency anchored to the dollar, yet fears the instability and losses in reserve values that a loosening of the link would entail. China is also creating tensions by keeping its currency undervalued while preparing for its internationalization (…)At the same time, it has clearly shown the euro area's unwillingness to take the burden—and responsibility—that goes with issuing the world's second reserve currency. In this context, dialogue and policy cooperation play an important role in helping these countries to coordinate their efforts and rebalance the world economy. Policy cooperation should aim to avoid any protectionist reaction to exchange rate movements. It should also help prepare the ground for a smooth transition to a multi-currency system by fostering the exchange of information among the world's main trading areas. That the system—or non-system—was no longer adequate, given the complexity of a burgeoning world economy, has been clear for some time."

"… in today's larger and more integrated world economy the dependence on the dollar as the basis of both trade flows and financial reserves has clearly become excessive, creating a system that is fundamentally unbalanced (…) The existing IMS needs to evolve into a multicurrency system in which a number of international currencies, ideally representing the main trading areas, have the functions of storing value and providing the unit of measure. A multicurrency system would respond more flexibly to the demand for liquidity and would provide a way to diversify the accumulation of reserve assets. Such a system would be better suited to a multipolar world economy."

Subacchi, Paola (2010): "Who is in control of the international monetary system?", International Affairs 86(3), 665-680.

116. International monetary system: power redistribution.

"Major developments have dramatically shifted the distribution of power in the system. Many have noted that power is now more widely diffused, both among states and between states and societal actors. Finance is no longer dominated by a few national governments at the apex of the global order. Less frequently remarked is the fact that the diffusion of power has been mainly in the dimension of autonomy, rather than influence (…) While more actors have gained a degree of insulation from outside pressures, few as yet are able to exercise greater authority to shape events or outcomes. Leadership in the system thus has been dispersed rather than relocated—a pattern of change in the geopolitics of finance that might be called *leaderless* diffusion. A pattern of leaderless diffusion generates greater ambiguity in prevailing governance structures. Rule-setting in monetary relations increasingly relies not on negotiations among a few powerful states but rather on the evolution of custom and usage among growing numbers of autonomous agents—regular patterns of behaviour that develop from longstanding practice."

"The diffusion of power, however, has been mainly in the dimension of autonomy, rather than influence—a pattern of leaderless diffusion in financial geopolitics. The days of concentrated power in a largely state-centric system are now over. Three major developments share principal responsibility for this change: (1) the creation of the euro; (2) the widening of global payments imbalances; and (3) the globalization of financial markets."

"The dynamics of power and governance in global finance today are indeed changing. A leaderless diffusion of power is generating greater uncertainty about the underlying rules of the game. At the state level, governments increasingly question the need for a strictly national currency. At the systemic level, governance now relies more on custom and usage, rather than intergovernmental negotiation, to define standards of behaviour."

Cohen, Benjamin J. (2008): "The international monetary system: diffusion and ambiguity", International Affairs 84(3), 455-470.

117. International monetary system: status quo prevails

"For quite some time the international monetary system has been incapable of delivering external balances or facilitating smooth adjustments of large imbalances. There is a convergence of interests for the status quo: the United States is keen to preserve the benefits it receives as the key-currency country, while creditor countries continue to accumulate dollar-denominated assets and sterilize increases in the foreign component of the monetary base."

Fratianni, Michele (2012): "The future International Monetary System: Dominant currencies or supranational money? An Introduction", Open Economies Review 23(1), 1-12.

118. The collapse of the international monetary system (1973)

"The structural causes of the present international monetary crisis remain the same that have been debated interminably, and ineffectually, for more than a decade, i.e. the easy financing of persistent U.S. balance-of-payments deficits by foreign accumulation of U.S. dollars as international reserves, and the consequent suppression of adjustment pressures on the surplus countries as well as on the U.S. This finally exploded in the unprecedented magnitude of such disequilibria and financing over the years 1970-1972."

There was at the time "broad intellectual consensus on two basic, commonplace principles: (1) the need for an effective adjustment mechanism, precluding persistent disequilibria in any country's balance of payments; and (2) the need to adjust, and limit, world reserve creation to the non-inflationary requirements of world economic growth."

Triffin, Robert (1973): "The collapse of the international monetary system: Structural causes and remedies", De Economist 121(4), 362-374.

119. A proposal for supranational bank money

"We adapt the basic principles of the Keynes Plan and argue for the creation of a supranational bank money (SBM) that would coexist along side national currencies and for the establishment of a new international clearing union (NICU). These principles remain timely because the fundamental causes of the instability of the international monetary system are as valid today as they were in the early forties. The new supranational money would be created against domestic earning assets of the Fed and the ECB and its quantity would be demand-driven (…) The financial tsunami that hit the world economy in 2007–2008 provides a unique opportunity for a coordinated strategy."

120. Strategies for a future international monetary system

"At this time, there are (at least) two strategies for the future of the IMS, a conservative strategy and an active one. The former aims at preserving the status quo; the underlying assumption (…) is that the IMS, to work well, must be based on a key currency issued by a dominant country with a deep financial market and a range of short-term instruments accessible by nonresidents (…) The trouble with the conservative strategy is that it has no *coherent* method to arrest the deterioration of the dollar standard or to accelerate the replacement of the dollar by another key currency. The euro has grown as the second most important international currency but the incomplete financial and political integration in Euroland prevents the euro from replacing the dollar as the dominant international currency. The second strategy, the active one, is based on two pillars. The first is that there is an alternative to the hegemonic key-currency situation in the form of a cooperative decision-making process (…). The second is that a progressive reduction of the dual role of the dollar as a national and international currency can be obtained by introducing a supranational money, albeit gradually. The Keynes Plan for the postwar international financial system fits into this category."

Alessandrini, Pietro; Michele Fratianni (2009): "Resurrecting Keynes to stabilize the International Monetary System", Open Economies Review 20(3), 339-358.

121. Recommendations to avoid financial crises

"Many of the best minds among economists and the financial community have expressed their views on recent international financial crises and the design of a new financial infrastructure. While there is widespread agreement on what happened, there is much less convergence on what should be done about it. Still, we can identify a common core of proposals (…), as well as a number of issues on which economists disagree. Abusing terminology, let us call the former the 'consensus view'. The seven pillars of the consensus view. Most recommendations concur on a number of desirable steps:

• Elimination of currency mismatches. A high level of indebtedness in foreign currencies makes a country very vulnerable to a depreciation in the exchange rate and to the concomitant liquidity and solvency risk faced by domestic banks and firms. Along with this, the absence of countrywide risk management confronts monetary policy with an unpalatable dilemma. A tight monetary policy, to maintain the exchange rate, runs the risk of a severe recession, while a loose monetary policy leads to depreciation of the currency and possibly the bankruptcy of firms and banks that are highly indebted in foreign currency. A common proposal, therefore, is to eliminate currency mismatches, at least at the level of banks and the government. Furthermore, many suggest that a domestic buildup of international reserves would reassure foreign investors about the value of their investment.

• Elimination of maturity mismatches. To prevent hot money from fleeing the country, many advocate a lengthening in debt maturity, as well as measures encouraging alternatives to short-term debt, such as foreign direct investment (FDI) and investment by foreign bank subsidiaries.

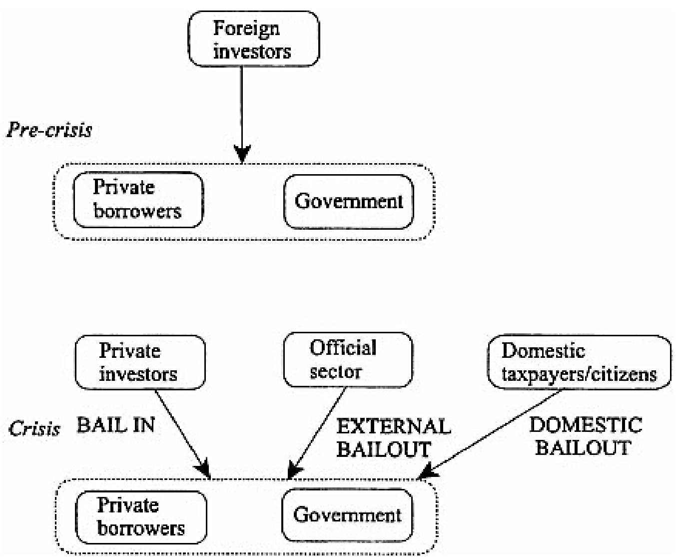
• Better institutional infrastructure. In response to the poor governance that has marred many crisis countries, the consensus view argues that infrastructure-promoting reforms, such as adherence to universal principles for securities market regulation designed by the International Organization of Securities Commission (IOSCO) and those for accounting designed by the International Accounting Standards Committee (IASC), would reassure foreign investors and help prevent crises.

• Better prudential supervision. Most crisis countries' prudential regulations satisfied the international standards as defined by the Basle Accord (…) Enforcement of the standards in a number of crisis countries has been highly negligent, resulting in low capital adequacy and high values at risk. The consensus view calls for a better enforcement of existing prudential regulations.

• Country-level transparency. Most economists recommend that foreign investors be informed in a uniform and regular manner of the country's structure of guaranteed debt and off-balance-sheet liabilities.

• Bail-ins. There is widespread agreement on the desirability (although not on the feasibility) of forcing the foreign investors to share the burden in a case of crisis. The argument is that bailing-in the investors will force them to act in a more responsible manner in lending only to countries with good fundamentals.

• Avoid fixed exchange rates. (…) The broad consensus is that fixed exchange rates work poorly under financial deregulation and that countries with open capital account should choose between floating rates and hard pegs."



122. Moral hazard problems: who bears the burden of a financial crisis?

"… there are three possible victims: the domestic taxpayers, the foreign investors whose equity value is depreciated or debt claim is in default or renegotiated, and the 'official sector' (which we define here as IFIs [international financial institutions] plus advanced countries' Treasuries) that can lose money in attempting rescues (…) The burden sometimes falls entirely on domestic taxpayers."

Tirole, Jean (2002): *Financial crises, liquidity, and the international monetary system*, Princeton University Press.

123. Duality in the global economy

"Two major dichotomies have made the international economy increasingly vulnerable to the kind of crisis that the world is currently experiencing. The first one is the contrast between, on the one hand, a 'rule-based' international trading system with a strong international organization at the center, and, on the other hand, a purely 'market-based' international financial system. The second one is while finance has been fully globalized, monetary policy has remained firmly national (or regional in the case of the Euro-zone) without any set of common mechanisms or rules or objectives at the international level. The origins of today's economic and financial crisis are as much intellectual as they are political and institutional. The quality and the scope of the debate will determine the success or failure of innovation at institutional and policy levels."

Hieronymi, Otto; ed. (2009): *Globalization and the reform of the International Banking and Monetary System*, Palgrave Macmillan UK.

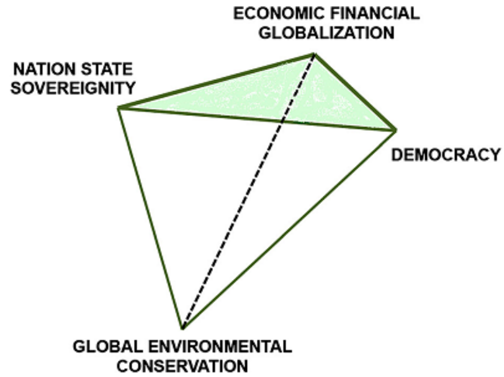
124. Why the dollar still rules

"The principle [*sic*] reason why the dollar remains the dominant international currency is that the United States has so far fulfilled three functions in the global monetary system: (1) having open and highly developed financial markets that generate an adequate supply of liquid assets; (2) having a central bank that more or less maintains the value of these assets; (3) running current account deficits that allow it to play the role of global consumer-of-last-resort."

"There are two reasons to doubt that the ECB's relatively conservative monetary policy increased the attractiveness of the euro over the dollar. First (…) the ECB's refusal to buy more sovereign debt securities impaired the liquidity of European financial markets and the ability of the Eurozone to supply safe assets to the global monetary system. If there is one lesson to be drawn from the GFC and the Eurozone crisis for the link between monetary policy and international currency status, it is that sovereign debt can lose its quality as a safe asset when it is not backstopped by the central bank (…). Second, the ECB's relative conservative monetary policy stance has prevented the Eurozone from playing a greater role in the generation of global demand."

Vermeiren, Mattias (2014): *Power and imbalances in the Global Monetary System. A comparative capitalism perspective*, Palgrave Macmillan UK.

125. Quadrilemma in climate change international negotiations

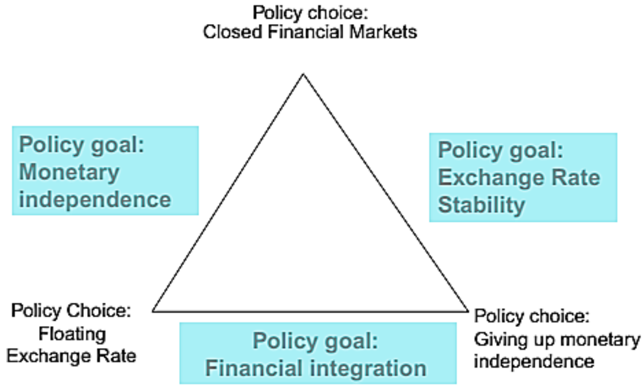


"Current global climate change negotiations face some contradictions that are not always addressed as they are considered politically incorrect. These include, first, the decoupling of commitments for planetary environmental policies with the actual national strategies. A relevant example is the Bolivian administration, which presents a strong rhetoric for biospheric Mother Earth Rights, but its national development strategies generate more environmental impacts and weaken enforcement at the local level. Second, the core ideas and beliefs that explain development varieties that generate climate change are deeply rooted, so changes in political ideologies, either from traditional 'left' or 'right', do not determine policies to effectively overcome climate change. Third, accumulation of scientific information is not enough to promote the necessary changes, because these deep roots conditioned perceived and acceptable alternatives. Fourth, this lead to tensions among the pursuit of economic financial globalization, the sovereignty of the nations-states, democracy, and the basement of global environmental conservation. This is a quadrilemma, because if one or two of these objectives are pursued, at least one other is violated. Nevertheless, international negotiations rest on wishful thinking that this is possible. Uncovering these contradictions is politically incorrect for many realms."

Gudynas, Eduardo (2016): "Climate change, the quadrilemma of globalization, and other politically incorrect reactions", Globalizations, DOI: 10.1080/14747731.2016.1162995.

126. A policy quadrilemma

"The policy Trilemma (the ability to accomplish only two policy objectives out of financial integration, exchange rate stability and monetary autonomy) remains a valid macroeconomic framework. [See the picture below] The financial globalization during 1990s–2000s reduced the weighted average of exchange rate stability and monetary autonomy. An unintended consequence of financial globalization is the growing exposure of developing countries to capital flights, and deleveraging crises. The significant costs associated with these crises added financial stability to the Trilemma policy goals, modifying the Trilemma framework into the policy Quadrilemma. Emerging markets frequently coupled their growing financial integration with sizable hoarding of reserves, as means of self-insuring their growing exposure to financial turbulences. The global financial crisis of 2008-2009 illustrated both the usefulness and the limitations of hoarding reserves as a self-insurance mechanism. While modifying the global financial architecture to deal with the challenges of the 21st century remains a work in progress, the extended Trilemma framework keeps providing useful insights about the trade-offs and challenges facing policy makers, investors, and central banks."



Aizenman, Joshua (2013): "The impossible trinity: From the policy trilemma to the policy quadrilemma", Global Journal of Economics 2(1) 1-17

127. Triffin's dilemma (Robert Triffin) and collapse of the Bretton Woods system

After World War II, the growth of the global economy needed an increase in international liquidity; that liquidity came from the US foreign deficit; running a persistent foreign deficit tended to erode the confidence in the dollar as an international reserve currency; and that erosion tended to create instability. As a result, the dollar as an international currency could not permanently fulfill two functions: provide liquidity and ensure stability.

Triffin's dilemma offered a theoretical argument for the eventual demise of the Bretton Woods system: the fear of a dollar collapse. The global macroeconomic context in which the demise ultimately took place was characterized by: (i) increase in the international flows of private capital; (ii) large and growing external imbalances; and (iii) undervalued currencies.

Eichengreen, Barry (2008): *Globalizing capital. A history of the International Monetary System*, Princeton University Press.

Eichengreen, Barry (2011): *Exorbitant privilege. The rise and fall of the dollar and the future of the International Monetary System*, Oxford University Press.

Salin, Pascal (2016): *The International Monetary System and the theory of monetary systems*, Edward Elgar.

Wang, Jingyi (2016): *The past and future of International Monetary System, with the performances of the US dollar, the euro and the CNY*, Springer Singapore.

Grabel, Ilene (2019): "Continuity, discontinuity and incoherence in the Bretton Woods order: A Hirschmanian reading", Development and Change 50(1), 46-71.

Dooley, Michael; David Folkerts-Landau; Peter Garber (2009): "Bretton Woods II still defines the International Monetary System", Pacific Economic Review 14(3), 297-311.

Hall, Stephen G. (2011): "The debate about the revived Bretton-Woods regime: A survey and extension of the literature", Journal of Economic Surveys, 1-24.

Mandilaras, Alex S. (2015): "The international policy trilemma in the post-Bretton Woods era", Journal of Macroeconomics 44, 18-32.

Chen, Chih-huan; Ching-chong Lai (2010): "An interpretation of the collapsing process of the Bretton Woods system", Open Economies Review 21, 449-463.

Endres, Anthony M. (2011): *International financial integration. Competing ideas and policies in the Post-Bretton Woods era*, Palgrave Macmillan.

"In the last few years, the relative decline of the economy of the United States and the presumed decline of the dollar as an international currency have led scholars to formulate new versions of the Triffin dilemma. The fear is that in the face of a growing demand for currency reserves, mainly from emerging countries, the supply of reserve instruments in dollars, in particular, treasury bonds, will not be able to increase at the same pace. Two different explanations have been provided for this process. The first, closer to the original version of the Triffin dilemma, maintains that the creation of international liquidity by the United States is due to its large and persistent current account deficits (…). Over time, the persistence of these deficits and the corresponding rise in US debt will result in mistrust in the solvency of the United States and its dollar. In this view, the shortage of international liquidity goes hand in hand with the decline in the dollar's standing as an international currency. In another recent version of the Triffin dilemma, the prospect of a lack of international liquidity is due to the fact that, even if US foreign accounts were in balance, the importance of the US economy within the world economy is decreasing. Correspondingly, the impact of US government deficits (and of the securities issued to cover them) on the world economy is decreasing. It follows that the supply of US Treasuries will result in being inadequate to meet demand (…). The two recent versions of the Triffin dilemma may take different paths, but they both come to the same conclusion, namely, that in the coming decades, the world economy will be marked by a shortage of international liquidity and high levels of deflation."

Seghezza, Elena (2018): "Can swap line arrangements help solve the Triffin dilemma? How?", World Economics, DOI: 10.1111/twec.12669.

128. Lessons to be learned from Bitcoin

"The first is to not give up on a problem. Just because people failed for 20 years to develop digital cash doesn't mean that a system out there will not work. The second is to be willing to compromise. If you want perfect anonymity or perfect decentralization, you'll probably need to degrade other areas of your design. Bitcoin, in retrospect, seems to have made the right compromises. It scales back anonymity a bit and requires participants to be online and connected to the peer-to-peer network, which turned out to be acceptable to users. A final lesson is success through numbers. Bitcoin was able to build up a community of passionate users as well as developers willing to contribute to the open-source technology. This approach differs markedly from previous attempts at digital cash, which were typically developed by a company, with the only advocates for the technology being the employees of the company itself. Bitcoin's current success is due in large part to the vibrant supporting community who pushed the technology, got people to use it, and persuaded merchants to adopt it."

Clark, Jeremy (2016): "The long road to Bitcoin", foreword to Narayanan, Arvind; Joseph Bonneau; Edward Felten; Andrew Miller; Steven Goldfeder (2016): *Bitcoin and cryptocurrency technologies. A comprehensive introduction*, Princeton University Press, Princeton, NJ.

III. Democracy and politics under globalization

129. Two ways democracies die (Levitsky and Ziblatt, 2018)

- Democracies may fall quickly and spectacularly, immediately and evidently, through military power and coercion. Examples of democracies dying at the hands of men with guns, who seize power violently: Argentina, Brazil, Chile (1973), the Dominican Republic, Egypt (2013), Ghana, Greece, Guatemala, Nigeria, Pakistan, Peru, Thailand (2014), Turkey, Uruguay.
- Democracies may be broken from within by elected leaders, generally slowly and imperceptibly. In this case, presidents or primer ministers used the power legally obtained to erode or subvert the rules that allowed them to come to power, taking steps towards authoritarianism. When the subversion process consolidates, democracy ends replaced by autocracy with a façade of legitimacy. The country is still nominally a democracy (elections are held, democratic institutions continue to exist, the rule of law on the surface remains intact, elected leaders claim to act in the name of democracy and democratic ideals), but the substance of democracy has vanished. The crossing of the line separating democracy from autocracy goes unnoticed to most people. Examples of democracies dismantled by elected governments without having to put tanks on the streets: Georgia, Hungary, Nicaragua, Peru, the Philippines, Poland, Russia, Sri Lanka, Turkey, Ukraine, Venezuela.
- "The tragic paradox of the electoral route to authoritarianism is that democracy's assassins use the very institutions of democracy—gradually, subtly, and even legally—to kill it." De-democratization does not tend to be sudden, but incremental.

130. What makes democracies strong

- What makes democracies strong and healthy is not the lack of political figures with autocratic leanings, but having tools (like political parties) preventing them to gain enough power or, ultimately, having the most relevant political leaders oppose and reject anti-democratic inclinations.
- "Democracies work best—and survive longer—where constitutions are reinforced by unwritten democratic norms. Two basic norms have preserved America's checks and balances in ways we have come to take for granted: mutual toleration, or the understanding that competing parties accept one another as legitimate rivals, and forbearance, or the idea that politicians should exercise restraint in deploying their institutional prerogatives (…) Leaders of the two major parties accepted one another as legitimate and resisted the temptation to use their temporary control of institutions to maximum partisan advantage. (…) The weakening of our democratic norms [toleration and restraint] is rooted in extreme partisan polarization (…) And if one thing is clear from studying breakdowns throughout history, it's that extreme polarization can kill democracies."

Levitsky, Steven; Daniel Ziblatt (2018): *How democracies die*, Crown, New York.

131. De-democratization (*Homeland*, Season 7, Episode 12)

"When we think of democracies dying, we think of revolutions, of military coup d'etats, of armed men in the street. But that's less and less how it happens anymore. Turkey, Poland, Hungary, Nicaragua, The Philippiness. Democracies now die when we're not looking, when we're not paying attention. And the end rarely comes in an instant, but arrives slowly, like twilight. And at first, our eyes dont' notice."

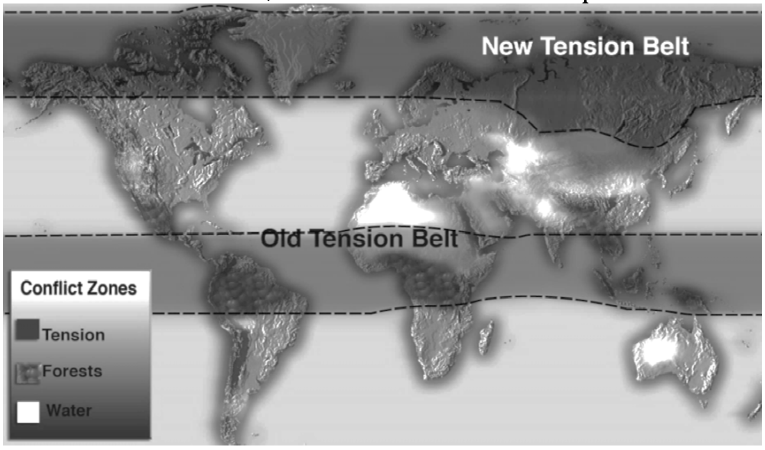
132. Two futures for American capitalism (Alan Nasser, 2018, pp. 1-2)

"either ongoing repressive austerity for working people, or a society constituted by a shift from private to public investment, a much-shortened work week, and a vast increase in household income, enabled in large part, as was the case during the Second New Deal, by large-scale government employment (…) I contend that the present historical conjuncture, properly diagnosed, points to its own prescription: a democratic socialist polity as successor to a capitalism that has, like living organisms, exhausted its potential for nonpredatory growth. Capitalism's life can be prolonged only at the expense of democracy and of material and psychological security."

Nasser, Alan (2018): *Overripe economy. American capitalism and the crisis of democracy*, Pluto Press, London.

133. Tension belts

The tension belts are the manifestation of the view that climate change will reinforce political conflict. Climate change will produce scarcity in some regions and abundance in others; induce the massive displacements of people; generate new sovereignty claims and border disputes…



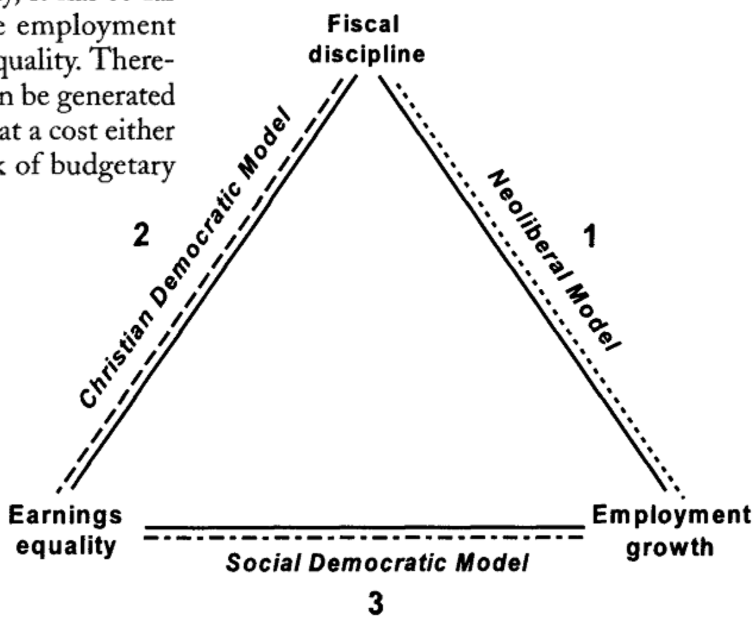
- Equatorial tension belt. Involves mainly developing countries. Here climate change will lead to hot wars, as it will make the regions hotter and drier (increasing deforestation and worsening water shortages).
- Polar tension belt. Involves developed countries. Climate change will make this region more valuable (it will attract population, create new opportunities for resource exploitation and induce states to fight for its control). As distinguinshed from the hot wars in the equatorial belt, the duration of the cold wars in the polar belt is more likely to be short-term, motivated by opportunity (not desperation) and relative to specific (rather than general) resources.

Lee, James (2009): *Climate change and armed conflict. Hot and cold wars.*

134. The trilemma of the service economy (Torben Iversen, Anne Wren, 1998)

In contrast to the globalization literature, this paper argues that the most important change in the advanced liberal democracies over the past three decades has been the transition from an economy dominated by (exposed) manufacturing production to one dominated by (sheltered) services production.[4] Borrowing from portions of the emerging literature on the postindustrial society, the paper develops a political-economic model of the service economy which implies that governments and nations confront a three-way choice, or "trilemma," between budgetary restraint, income equality, and employment growth. While it is possible to pursue two of these goals simultaneously, it has so far proved impossible to achieve all three. Private service employment growth can be accomplished only at a cost of wage inequality. Therefore, if wage equality is a priority, employment growth can be generated only through employment in the public services sector—at a cost either of higher tax rates or of borrowing (both implying lack of budgetary restraint).

Iversen, Torben; Anne Wren (1998): "Equality, employment, and budgetary restraint: The trilemma of the service economy," World Politics 50, 507-546.



135. The political will trilemma (Nacho Álvarez)

"… en los países periféricos de la zona euro no parece viable satisfacer al mismo tiempo las exigencias de la ciudadanía, las exigencias de las élites nacionales y las exigencias financieras internacionales (cristalizadas en las normas de Bruselas). Hay que elegir y descartar, al menos, uno de estos tres vértices (o, en este trilema, incluso dos)."

"… in the peripherical countries of the eurozone it does not appear possible to satisfy, at the same time, the demands by the people, the demands by national elites and the international financial demands (as expressed in Brussels' norms). A choice must be made and discard, at least, one of the three demands (or, in the present trilemma, even two of them)."

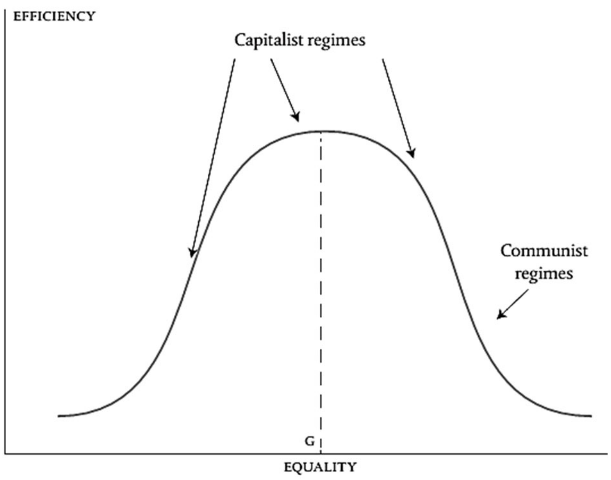
Álvarez, Nacho (2018): "Pedro Sánchez y el trilema de la voluntad política", https://ctxt.es/es/20180905/Firmas/21589/pedro-sanchez-unidos-podemos-austeridad-deficitreforma-fiscal-dani-rodriknacho-alvarez.htm

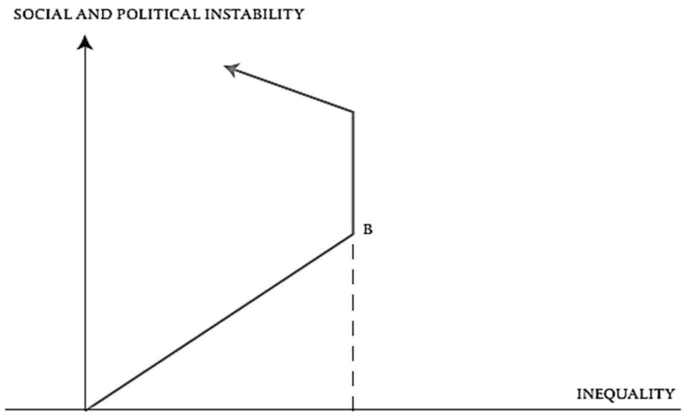
"*En países con débiles regímenes fiscales, como los países periféricos de la eurozona, una expansión fiscal que permita reconstruir los derechos que las políticas de austeridad se han llevado por delante, y ampliar otros nuevos, ha de financiarse con cierto déficit público –anatema para Bruselas–, o con cargo a una reforma tributaria, que necesariamente debe descansar sobre las élites del país, dado que en estas latitudes las clases medias y populares ya soportan buena parte de la carga tributaria (...) Gobernar es elegir, decidir si (...) se atenderán las exigencias de las élites del país, las de la tecnocracia de Bruselas o las de la mayoría social. El gobierno italiano ha elegido chocar con Bruselas.*"
"In countries having a weak fiscal structure, like the eurozone peripheral countries, a fiscal expansion aimed at rebuilding rights devastated by austerity policies, and expanding new ones, must be debt-financed –a capital sin for Brussels– or tax-financed. The latter option would require a tax reform, the burden of which shall fall on the country's elites, since in these countries the middle and lower classes already bear a heavy tax burden (...) Governing means choosing, decide which demands will be served: the country's elites', the Brussels technocrats' or the social mayority's. The Italian government has chosen to clash with Brussels."

136. Government vs market: efficiency, equality, stability

The chart below on the left (de Grauwe, 2017, p. 88) shows the presumed link between efficiency and equality. If correct, this link establishes limits to what can be achieved trough redistribution policies. "The loss of prosperity can be so great that many people reject the system. This reaction was an important factor in the implosion of communist regimes, which were no longer capable of guaranteeing minimal material prosperity. They had clearly exceeded their limits and were punished."

The chart below on the right (de Grauwe, 2017, p. 150) shows the presumed link between instability and inequality. "When inequality increases, so does the degree of political and social instability. At B we have reached a tipping point. Great inequality leads to revolution, violently overturning the market system. From that point on the degree of inequality is dramatically reduced. Such revolutions, however, do not always lead to reduced instability; in fact instability may initially rise, because many conflicting groups attempt to grasp power. In time this tends to lead to consolidation of power in the hands of an authoritarian regime. The cycle can begin again." (de Grauwe, 2017, p. 149)





de Grauwe, Paul (2017): *The limits of the market: The pendulum between government and market*, Oxford University Press, Oxford, UK.

137. 'The paradox of our times', Held (2010, p. 4)

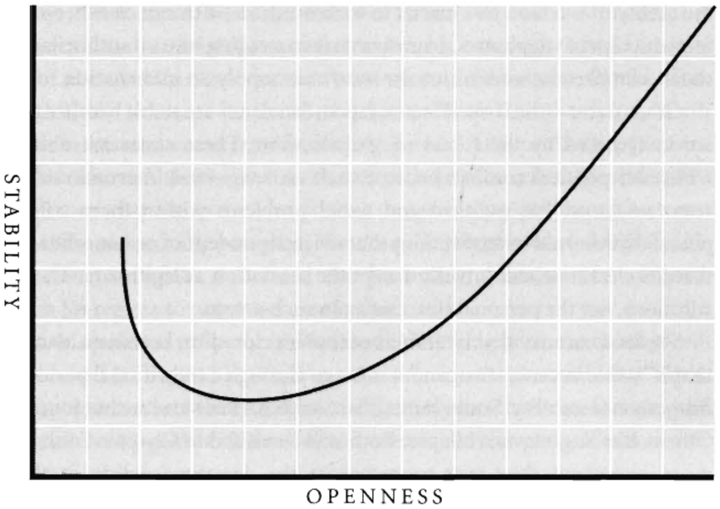
The paradox is that the global core problems (associated with sharing the planet, sustaining societies and establishing global regulations) increasingly trascend political borders but the tools to handle these issues are inadequate or insufficient (problems addressed in an ad hoc manner, with international/global institutions lacking coordination and accountability). The paradox expresses a problem of global governance: global problems cannot be solved at the national level or by nations acting alone. Worse still, the gap between the need for global solutions and the inability of multilateral institutions to meet that need is growing.

Held, David (2010): *Cosmopolitanism: Ideals and realities*, Polity Press, Cambridge, UK.

138. Ian Bremmer's (2006) J curve between stability and openness

"Each nation whose level of stability and openness we want to measure appears as a data point on the graph. These data points, taken together, produce a J shape. Nations to the left of the dip in the J are less open; nations to the right are more open. Nations higher on the graph are more stable; those that are lower are less stable." (Bremmer, 2006, p. 6)

Bremmer, Ian (2006): *The J curve. A new way to understand why nations rise and fall*, Simon & Schuster, New York.



139. Rodrik's (2007, p. 8) central dilemma of the world economy

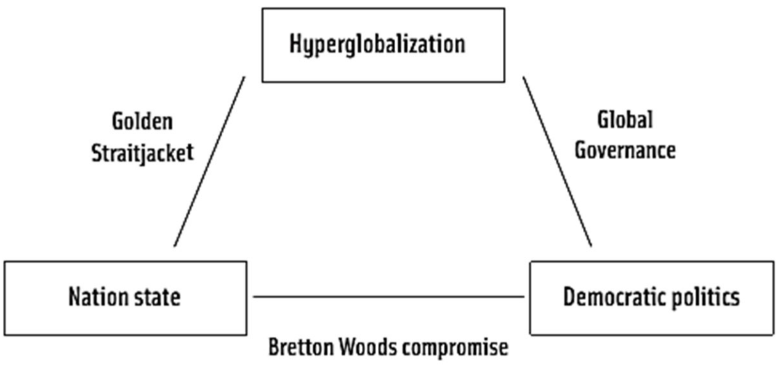
There exists a tension between the economic reality (the global nature of many markets) and the political reality (the local nature of the institutions under which markets operate).

Rodrik, Dani (2007): *One economics, many recipes: Globalization, institutions, and economic growth*, Princeton University Press, Princeton, NJ.

140. Rodrik's (2011) trilemma: The inevitable clash between politics and hyperglobalization

"The fundamental political trilemma of the world economy: we cannot have hyperglobalization, democracy, and national self-determination all at once." A fully globalized economy forces the state to preserve the economic globalization and satisfy the needs and expectations of international traders and investors. When there is a conflict between the needs of the people and the needs of these agents, the state must give priority to the latter. To restore domestic democratic legitimacy, globalization must be limited. The third option is to give up state sovereignty to globalize democracy. Hence, the options are: restrict democracy, limit globalization or globalize democracy (sacrificing national sovereignty).

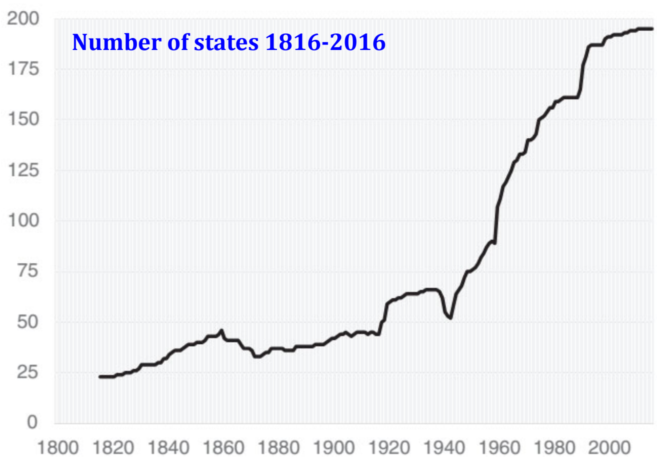
Rodrik, Dani (2011): *The globalization paradox: Why global markets, states, and democracy can't coexist*, Oxford University Press, Oxford, UK.



The political trilemma of the world economy, Rodrik (2011, p. 201)

141. Birth and death of states

"A clear trend in the international state system during the last 200 years is the increasing number of states (...) Since 1816, the international state system has expanded from 25 members to almost 200 members. During this period, the system has been in more or less continual fux. Old states have died through conquest, occupation, or dissolution, while new states have emerged after decolonization, integration, or secession. About 25% of all states that have existed since 1816 have perished, mostly after violent processes (...), and almost 90% of all states currently in existence were born after 1816."



Denk, Thomas; Sarah Lehtinen (2019): *State-formation and democratization*, Palgrave Macmillan, Cham, Switzerland.

142. The need for good governance, not less governance

“A strong belief in continuous human progress has been a legacy of the Enlightenment to many generations (...) Neither a lack of financial, or natural resources, nor of insufficient technical know-how is slowing potential progress. The binding constraint on progress in this second decade of the 21st century is the ability of nations, various social groups, and citizens to compromise and cooperate. This constraint is embodied in obstacles preventing good governance and reasonable policies, locally, nationally, and globally.”

“National markets have been embedded in national political processes for along time. The nation-state has regulated, supervised, and redistributed—not always in the best possible way but without doubt adding a much-needed social and regulatory dimension to market economies and contributing to successful societies in the second half of the 20th century (...) In the 21st century, something similar to the “institutional embedding” of national markets must happen for global markets to avoid similar catastrophes (...) Public policy must be designed and implemented atmultiple levels, going from the very local to the national, regional, and global (...) Governance has to be multilevel and multichannel, involving civil society and private initiative in multifaceted partnerships that cross national borders.”

“Economic cross-border spillover effects and economic interdependence have also become more important and need a stronger global framework that can deal with problems such as persistent and large trade imbalances, tax avoidance, and the need to harmonize financial regulation, manage migration, and ensure adequate competition in international market.”

Dervis, Kemal (2016): *Reflections on progress. Essays on the global political economy*, The Brookings Institution, Washington D.C.

143. Exit, voice and loyalty

“The performance of a firm or an organization is assumed to be subject to deterioration (...) Management then finds out about its failings via two alternative routes:

(1) Some customers stop buying the firm's products or some members leave the organization: this is the exit option. As a result, revenues drop, membership declines, and management is impelled to search for ways and means to correct whatever faults have led to exit.

(2) The fim's customers or the organization's members express their dissatisfaction directly to management or to some other authority to which management is subordinate or through general protest addressed to anyone who cares to listen: this is the voice option. As a result, management once again engages in a search for the causes and possible cures of customers' and members' dissatisfaction.” Hirschman (1970, pp. 3-4)

“Every state-and indeed every organization-requires for its establishment and existence some limitations or ceilings on the extent of exit or of voice or of both. In other words, there are levels of exit (disintegration) and voice (disruption) beyond which it is impossible for an organization to exist as an organization. At the same time, an organization needs *minimal* or *floor* levels of exit and voice in order to receive the necessary feedback about its performance. Every organization thus navigates between the Scylla of disintegration-disruption and the Charybdis of deterioration due to lack of feedback.” Hirschman (1980, p. 441)

“The interaction of these three variables —suppression of exit, suppression of voice, and repression— can also be observed in other settings. One might even propose a theorem: a state can control only two out of these three variables. In Cuba, Fidel Castro chose to suppress voice and to limit the amount of repression: so he had to put up with an unexpectedly large loss of skilled manpower as hundreds of thousands of Cubans chose to emigrate. In Stalin's Russia, complete suppression of exit and voice yielded repression of a size and kind that surely had not been fully intended at the outset, while in post-Stalinist Russia, the decision to set limits to repression, combined with the continued strict controls on exit, has led to the voicing of considerably more dissent than the authorities had planned for.” Hirschman (1980, p. 444)

Hirschman, Albert O. (1970): *Exit, voice, and loyalty. Responses to decline in firms, organizations, and states*, Harvard University Press, Harvard, MA.

Hirschman, Albert O. (1980): "'Exit, voice, and loyalty': further reflections and a survey of recent contributions", Health and Society 58(3), 430-453.

144. The four D's behind the rise of national populism

"National populists prioritize the culture and interests of the nation, and promise to give voice to a people who feel that they have been neglected, even held in contempt, by distant and often corrupt elites. It is an ideology rooted in very deep and long-term currents that have been swirling beneath our democracies and gaining strength over many decades."

"National populism revolves around a set of four deep-rooted societal changes (…) The first is the way in which the elitist nature of liberal democracy has promoted distrust of politicians and institutions and fuelled a sense among large numbers of citizens that they no longer have a voice in their national conversation. Liberal democracy always sought to minimize the participation of the masses (…)

The second is how immigration and hyper ethnic change are cultivating strong fears about the possible destruction of the national group's historic identity and established ways of life. These fears are wrapped up in a belief that culturally liberal politicians, transnational organizations and global finance are eroding the nation by encouraging further mass immigration, while 'politically correct' agendas seek to silence any opposition (…)

The third is the way in which neoliberal globalized economics has stoked strong feelings of what psychologists call relative deprivation as a result of rising inequalities of income and wealth in the West and a loss of faith in a better future (…) This means they are very fearful about the future and what lies ahead for themselves and their children. This profound sense of loss is intimately entwined with the way in which people think through issues like immigration and identity. Today there are millions of voters who are convinced that the past was better than the present and that the present, however bleak, is still better than the future (…)

National-populist leaders feed on this deep dissatisfaction, but their path into the mainstream has also been cleared by a fourth trend: the weakening bonds between the traditional mainstream parties and the people, or what we refer to as de-alignment. The classic era of liberal democracy was characterized by relatively stable politics, strong mainstream parties and loyal voters; we have seen it now come to an end. Many people are no longer strongly aligned to the mainstream. The bonds are breaking. This de-alignment is making political systems across the West far more volatile, fragmented and unpredictable than at any point in the history of mass democracy. Politics today feels more chaotic and less predictable than in the past because it is. This trend too was a long time coming, and it still has a long way to run.

Together, the 'Four Ds' have carved out considerable room for national populists, or what we call the 'pool of potential' – large numbers of people who feel that they no longer have a voice in politics, that rising immigration and rapid ethnic change threaten their national group, culture and ways of life, that the neoliberal economic system is leaving them behind relative to others in society, and who no longer identify with established politicians."

Eatwell, Roger; Matthew Goodwin (2018): *National populism. The revolt against liberal democracy*, Pelican, UK.

145. On two global forces: does trade make conflict (and war) less likely?

"Although there have been and still are critics of international trade who denounce it because it damages the environment, causes domestic unemployment, undermines local communities and cultures and exacerbates conditions of inequality – in other words, because of the many ways in which it is destructive – the association between international trade and conditions of stability, if not peace, has endured at the levels of government policy, in the work of international organizations and in academic analysis (…) We see trade as an inherently competitive endeavour in which participants vie to establish their dominance that is achieved by defeating or besting others. Our case studies also show that historically conflict has not stopped trade (…) Trade might or might not be the object of the war but trade can become essential to sustain a war effort. Rather than seeing a zero-sum dynamic defining the relationship between trade and conflict, we have found that there is a reciprocal transformative relationship. (…) Even if the expression of conflict has mostly shifted from physical violence to rhetorical disputes, the encounters remained highly conflictual. Commercial competition remains a cut-throat contest in which not all will thrive or survive. Neither has the shift from mercantilism to liberalism that demarcated commercial eras eradicated the connection between trade and war. Wars have been pursued in the name of free trade. There was also the specific commercial variant –trade war– that provoked anxiety throughout the twentieth century."

"'Make trade, not war' is a classical motto that, depending on the times, finds more or less debatable theoretical and empirical support (…) Acceptance that trade relations are conflicting, essentially dynamic and oftentimes disaggregating will surely ease the task of all – academics, negotiators, businessmen, policymakers, social leaders – involved in the trade drama. The WTO exists exactly because trade is conflict; it will never lead us to a rosy garden of free, perpetually peaceful trade. Not at all; it will through considerable trouble and strife mend fences, try to impose close to 'fairer practices' in the swiftly changing trade flows and stand as one of the (fragile) barriers to more drastic approaches to conflict resolution. [By rejecting the view that trade makes conflict less likely] we shall be in better condition to face the myriad problems posed by trade relations, focusing in a more realistic manner on what should and may be changed."

Coppolaro, Lucia; Francine McKenzie; eds. (2013): *A global history of trade and conflict since 1500*, Palgrave Macmillan, Basingstoke, UK.

146. Globalization and sovereignty (John Agnew, 2018)

"… just as there never was a stable world of state territorial sovereignty that was suddenly undermined by the onset of globalization in the 1970s, neither is there now a reversion to a world of absolute state sovereignty exercised over neat chunks of terrestrial space. Effective sovereignty is always and everywhere exercised in relation to a variety of actors—state-based, corporate, societal, and so on—who can be enrolled in its exercise even as they share in its effects at home and spread its impacts far and wide beyond the bounds of any state's territory sensu stricto."

Agnew, John (2018): *Globalization and sovereignty. Beyond the territorial trap*, second edition, Rowman & Littlefield, London.

147. Ultrasociality (Peter Turchin, 2016)

"… ultrasociality—the ability of human beings to cooperate in very large groups of strangers, groups ranging from towns and cities to whole nations, and beyond."

Social scale (people)	Polity Types	Time (kya)
10s	Foraging bands	200
100s	Farming villages	10
1,000s	Simple chiefdoms	7.5
10,000s	Complex chiefdoms	7
100,000s	Archaic states	5
1,000,000s	Macrostates	4.5
10,000,000s	Mega-empires	2.5
100,000,000s	Large nation-states	0.2

"The increase in the scale of human societies, measured by the number of people in a polity (a politically independent unit)." (100s = between 100 and 1,000)

"Time (kya) is time in thousands of years since the first appearance of the polity type."

"… cooperation is actually astonishingly difficult to achieve and, once achieved, hard to preserve. We tend not to appreciate just how fragile it is (…) Today we live in huge societies of millions of people, most of whom are perfect strangers to us. We don't fear strangers (…). More than that, we actually need them. We often forget how much we depend on the kindness of strangers."

"The central question of this book is why, during the past 10,000 years, large-scale, complex societies have replaced small-scale societies (…) The pace of cultural evolution is faster today, but research shows that the economic development and political stability of a modern country depend on cultural innovations and political decisions made decades and even centuries ago. If we want to make life better for people everywhere, we need to learn how to fix failed states and restart failed economies. The key (…) is cooperation. Where millions of strangers cooperate with each other, we see strong states and thriving economies. Where cooperation fails, so do states and economies. That is why it is so important to solve the puzzle of ultrasociality; to understand how the human capacity for cooperating in huge, anonymous societies evolved."

Turchin, Peter (2016): *Ultrasociety: How 10,000 years of war made humans the greatest cooperators on Earth*, Beresta Books, Chaplin, Connecticut.

148. A war without war? (Peter Turchin, 2016)

"Human social evolution has followed a remarkable, even bizarre trajectory, with sharp turns one after the other. Why? Philosophers and social scientists have offered many explanations, but there is still no accepted answer. Now, however, thanks to the new science of Cultural Evolution, we are beginning to see the outlines of the explanation. The answer is surprising. It was competition and conflict between human groups that drove the transformation of small bands of hunter-gatherers into huge nation-states (…) it was war that first created despotic, archaic states and then destroyed them, replacing them with better, more equal societies. War both destroys and creates. It is a force of creative destruction, to borrow a phrase from the economist Joseph Schumpeter. In fact, that phrase gets the emphasis wrong. War is a force of *destructive creation*, a terrible means to a remarkable end. And there are good reasons to believe that eventually it will destroy itself and create a world without war."

"The key process in the decline of violence has been the increase in the scale of human cooperation. Remember, peace is not just the absence of war; lasting, stable peace demands a lot of management. And the only way to accomplish it is by cooperation."

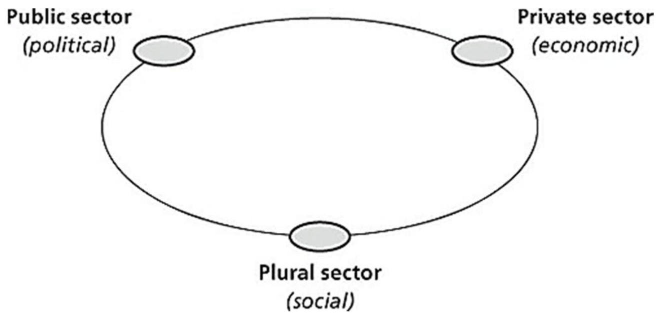
149. Balanced society and the plural sector (Henry Mintzberg, 2015)

"Enough of the imbalance that is destroying our democracies, our planet, and ourselves (…) Enough of the visible claw of lobbying in place of the invisible hand of competing. Enough of the economic globalization that undermines sovereign states and local communities."

"When the communist regimes of Eastern Europe began to collapse in 1989, pundits in the West had a ready explanation: capitalism had triumphed. They were dead wrong, and the consequences are now proving fateful. It was balance that triumphed in 1989. While those communist regimes were severely out of balance, with so much power concentrated in their public sectors, the successful countries of the West maintained sufficient balance across their public, private, and what can be called plural sectors. But a failure to understand this point has been throwing many countries out of balance ever since, in favor of their private sectors.

There are three consequential sectors in society, not two. The one least understood is known by a variety of inadequate labels, including the "not-for-profit sector," the "third sector," and "civil society." Calling it "plural" can help it take its place alongside the ones called public and private (…) Consider all those associations that are neither public nor private—owned neither by the state nor by private investors—such as foundations, places of worship, unions, cooperatives, Greenpeace, the Red Cross, and many renowned universities and hospitals. Some are owned by their members; most are owned by no one. Included here, too, are social movements that arise to protest what some people find unacceptable (…) and social initiatives, usually started by small community groups, to bring about some change they feel is necessary (…) Despite the prominence of all this activity, the plural sector remains surprisingly obscure, having been ignored for so long in the great debates over left versus right."

""… picture instead a balanced society as sitting on a stool with three sturdy legs: a public sector of respected governments, to provide many of our protections (such as policing and regulating); a private sector of responsible businesses, to supply many of our goods and services; and a plural sector of robust communities, wherein we find many of our social affiliations. How do we regain balance in our societies? Some people believe that the answer lies in the private sector—specifically, with greater corporate social responsibility (…) Other people expect democratic governments to act vigorously. This they must do, but they will not so long as public states continue to be dominated by private entitlements, domestic and global. This leaves but one sector, the plural, which is not made up of "them" but of you, and me, and we, acting together. We shall have to engage in many more social movements and social initiatives, to challenge destructive practices and replace them with constructive ones. We need to cease being human resources, in the service of imbalance, and instead tap our resourcefulness as human beings, in the service of our progeny and our planet."



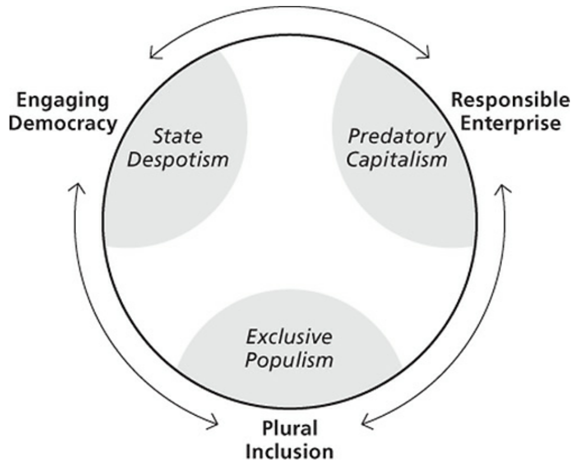
"A society out of balance, with power concentrated in a privileged elite, can be ripe for revolution (…) The trouble with revolution is that it usually replaces one form of imbalance with another. As some people among the disenfranchised gain power through force, they tend to carry their society toward some new extreme."

"The plural sector is not a "third way" between the other two sectors but (…) one of three ways required in a balanced society. Each sector suffers from a potentially fatal flaw. Governments can be crude. Markets can be crass. And communities can be closed—at the limit, xenophobic (…) Crudeness, crassness, and closed-ness are countered when each sector takes its appropriate place in society, cooperating with the other two while helping to keep both—and their institutions—in check (…) Healthy development—social, political, and economic—allows power to shift among the sectors according to need, in a dynamic equilibrium that encourages responsiveness without domination."

Mintzberg, Henry (2015): *Rebalancing society. Radical renewal beyond left, right, and center*, Berrett-Koehler Publishers, Oakland, CA.

150. Balance and imbalance (Henry Mintzberg, 2015)

"Countries today seem to be going backward, to imbalance, in three ways, and perhaps in one way forward, toward balance. One sector dominates each of the ways backward, shown in the figure (…) by the lopsided bulges shaded inside the circle. On the left is *state despotism*, dominated by government in the public sector (as we have seen under communism (…)). On the right is *predatory capitalism*, dominated by exploitative enterprises in the private sector (…). And at the bottom is *exclusive populism*, where some segment of the plural sector dominates society, excluding even other segments in that sector (as did the Muslim Brotherhood in Egypt). Take your choice—crude, crass, or closed—bearing in mind that one can lead to another. Exclusive populism easily gives rise to state despotism (as in Nazi Germany), while the fall of state despotism in the communist regimes of Eastern Europe has encouraged the growth of predatory capitalism in the West. In contrast, connected around the outside of the circle, in the spirit of balance, are plural inclusion, based on open collaboration; responsible enterprise, concerned with the legitimate needs of all stakeholders; and engaging democracy, which seeks widespread involvement of the citizenry. No one of these can rebalance society, but together they can."



Mintzberg, Henry (2015): *Rebalancing society. Radical renewal beyond left, right, and center*, Berrett-Koehler Publishers, Oakland, CA.

151. The fall of American democracy and the rise of technocracy? (Parag Khanna, 2017)

"Over the past decade, Americans have become accustomed to hearing that their position in the global rankings of wealth, life expectancy, education, public safety and other metrics has slid below that of their first world peers (…) America today far better represents degenerative politics than good governance. Many American intellectuals celebrate the theater of politics as if it is the embodiment of Tocqueville's praise for civic democracy. But democracy is not an end in itself. The greater goal is effective governance and improved national well-being. Because Americans no longer sense collective progress, they don't trust their institutions anymore, whether the White House, Congress, political parties, the Supreme Court, big business, or church. These organs of American leadership are passing down to the next generation a less well functioning government and society rather than the one they need to manage a complex future."

"Francis Fukuyama wonders whether the American system requires some kind of external 'shock to the political order'—such as a war or revolution—to jolt itself out of the present downward spiral and return to a focus on performance rather than politics. Perhaps Donald Trump represented just such a shock. By taking the White House, while Republicans retained the Senate and House, Trump's populist revolution led many to fear that he represents a kind of tyranny that no checks and balances can prevent. Democracy producing tyranny: Plato saw it coming (…) For Plato, the essential ingredients for a successful *polis* were an educated and engaged citizenry and a wise ruling class: Democracy combined with political aristocracy. Democracy with neither of these attributes would be a free but dangerously anarchic society whose lack of discipline made it easily susceptible to tyranny. To ward against such decay, his preferred form of government was led by a committee of public-spirited

'Guardians.' Today we call such a system technocracy. America has more than enough democracy. What it needs is more technocracy—a lot more.

The way to get there is ideally neither war nor revolution—nor a bout of tyranny—but to evolve America's political system in a more technocratic direction. Technocratic government is built around expert analysis and long-term planning rather than narrow-minded and short-term populist whims. Technocrats are *not* to be confused with the complacent establishment elites that were just stunned by Trump. Real technocracy has the virtues of being both utilitarian (inclusively seeking the broadest societal benefit) and meritocratic (with the most qualified and non-corrupt leaders). Instead of *ad hoc* and reactive politics, technocracies are where political *science* starts to look like something worthy of the term: A rigorous approach to policy."

"There are three things that the best governments do well: Respond efficiently to citizens' needs and preferences, learn from international experience in devising policies, and use data and scenarios for long-term planning. If done right, such governments marry the virtues of democratic inclusiveness with the effectiveness of technocratic management. The ideal type of government that results is what I call a *direct technocracy*.

In America, direct technocracy would look like this: A collective presidency of about a half-dozen committee members backed by a strong civil service better able to juggle complex challenges; a multi-party legislature better reflective of the diversity of political views and using data technologies for real-time citizen consultation, and the Senate replaced by a Governors Assembly that prioritizes the common needs of states and shares successful policies across them; and a judicial branch that monitors international benchmarks and standards, and proposes constitutional amendments to keep pace with our rapidly changing times."

"In the coming decades, global competition will punish the sentimental. A society that could do something better but doesn't is either stupid or suicidal—or both. For political systems this means less emphasis on democracy and more on good governance. Success is measured by delivering welfare domestically and managing global complexity, not by holding elections."

"America is still the most powerful nation in the world and home to more than 300 million capable people from all walks of life. For their sake, America needs to learn how to govern itself as a more effective state. We cannot simply assume that because in past generations America has demonstrated a capacity for self-renewal that this will happen again today (…) Direct technocracy is the superior model for 21st century governance. It combines Switzerland's collective presidency executive and multi-party parliament with Singapore's data-driven and utilitarian-minded civil service: A blend of technocracy and democracy, assisted by technology."

Khanna, Parag (2017): *Technocracy in America. Rise of the info-state*, CreateSpace.

152. A paradox of technology and politics (Daniel Innerarity, 2013)

"In complex societies, where everything is closely linked, the main problem consists of knowing how we can protect ourselves from our own irrationality. Catastrophic chains of events from which we should protect ourselves stem from our irresponsible tendency of fearing too much or not enough (…) Contemporary societies are faced with the crucial problem of how to re-determine the relationship between risk and security. The search for socially acceptable methods for managing risks effectively has become a task of particular interest both for political reflection and for the praxis of governance."

"In our collective imagination, technology appears as a potential threat (…) we can all recall the warning made by Lane (1966) [Lane, R. E. (1966): "The decline of politics and ideology in a knowledgeable society," American Sociological Review 31, 649-662.] that we were at the beginning of a new era where scientific knowledge would reduce the significance of politics. Today, the reality is quite different: in addition to techniques which are beneficial, we are surrounded by others that have failed (…) Toxic waste in the Gulf of Mexico, the economic crisis produced largely by the failure of sophisticated technological financial mechanisms, climate change brought about by our model of development are not only disasters with serious social repercussions but are also, and from the outset, resounding technological failures. In the light of such fiascos, we might conclude that the technocrats were wrong, but so were those who feared the failures of technology less than its successes."

"What is interesting in this historical turmoil is that it radically changed our way of understanding the articulation between politics and technology. Neither the technocratic Right nor the neo-Marxist Left of the 1960s and 1970s thought that the renewal of politics could one day arise from the failure of technology (…) We were expecting politics to protect us from the power of technology, and it now turns out that politics is being called upon to resolve the problems caused by technology's weakness."

"Far from transforming politics into an anachronism, technology (or rather its resounding failures or its potential risks) has reinforced the prestige of politics (…) managing these risks may be a new source of the legitimacy of political action (…). Whether politics knows how to successfully exercise this responsibility or has the instruments necessary to do so is another question. Therefore, politics is making a comeback in three fundamental areas: as the return of the state, as a recovery of political logic, and finally as the demand for a democratic management of risks."

"…the gradual awareness of the dangers of technological civilizations is encouraging the state to take on new tasks, albeit in very different contexts from the contexts where the state was accustomed to acting sovereignly (…) We can experience a moment of "re-politicization" precisely because of the discrediting of the so-called experts. Those who had monopolized accuracy and efficiency have failed; resorting to science and technology to put an end to controversies has become ideologically suspect; the world of the experts has turned out to be as rarely unanimous as our pluralistic societies."

"We find ourselves faced with a strange paradox: politics has not been strengthened through technological perfection, but through its failure. Technology needs political regulation now more than ever (…) Whenever technological failures are perceived as a serious threat to citizen rights, we demand that politics assumes the responsibility of creating the conditions that will allow us to meet these consequences as a society (…) Where we used to believe that there would be a technological solution for every problem in the future, our response has now been reversed (even if with more modesty): we can now be reasonably certain that problems brought about by technology will be solved politically or not at all."

Innerarity, Daniel (2013): "Introduction: Governing global risks", in Innerarity, Daniel; Javier Solana; eds. (2013): *Humanity at risk. The need for global governance*, Bloomsbury, New York.

153. Manipulation of democracy to sustain authoritarian rule, global democratic backsliding and inability of elections to deliver democracy

"The greatest political paradox of our time is this: there are more elections than ever before, and yet the world is becoming less democratic (…) The vast majority of governments at least go through the motions of election campaigns, and are rhetorically committed to allowing citizens to cast ballots to choose the leaders who will govern them. However, in many places, that choice is little more than an illusion: the contest is rigged from the start. Take Azerbaijan's 2013 elections, when the highly repressive government of President Ilham Aliyev sought to boost its democratic credentials by launching an iPhone app that enabled citizens to keep up to speed with the vote tallies as ballot counting took place (…) Those who were keen to try out the new technology were surprised to find that they could see the results on the app the day *before* the polls opened (…) In other authoritarian states in which leaders hold elections despite not being committed to democratic values, rigging is the norm rather than the exception."

"… on a scale of 1 to 10, in which 10 reflects a perfect election and 1 reflects the worst possible, the average election around the world scores just 6. In Asia, Africa, post-communist Europe and the Middle East the figure is closer to 5 (…). Moreover, even if we move away from a specific focus on authoritarian leaders to consider the entire universe of all elections globally, only about 30 per cent of elections result in a transfer of power. In other words, incumbents win seven times out of ten – and this figure has not moved much since the early 1990s (…) The last decade has witnessed a gradual decline in the quality of democracy in the world. Moreover, there is little evidence that this trend is easing (…) The erosion of democracy can be identified in all of the regions caught up in the 'third wave' of democratization –Latin America, Eastern Europe and Africa– as well as areas that have yet to democratize, such as the Middle East."

"These developments are particularly striking when stacked up against the other major trend of recent times: the growing prevalence of multiparty elections (…) Dictators, despots and counterfeit democrats have figured out how to rig elections and get away with it (…) more elections are being held, but more elections are also being rigged."

"What is less well known is that in many countries elections do not simply fail to topple dictators and despots; they sometimes actively help them shore up their grip on power. This is because reintroducing elections typically enables embattled governments to secure access to valuable economic resources like foreign aid, while reinvigorating the ruling party and – in many cases – dividing the opposition (…) If authoritarian leaders can hold elections without losing, they can have their cake and eat it –boosting their resources and legitimacy while retaining their grip on power (…) Once competitive elections have been reinstated, these regimes often prove to be remarkably adept at manipulating them for their own purposes. As a result, authoritarian systems that hold elections but do not allow opposition parties to meaningfully contest them prove to be more durable than those that do not.”

Cheeseman, Nic; Brian Klaas (2018): *How to rig an election*, Yale University Press, New Haven, MA.

154. The dilemma of state secrecy (Rahul Sagar, 2013)

“The realization that the practice of leaking is itself prone to grave abuse puts us in a difficult position. If we prohibit the publication of leaks of classified information, we stand to lose the most effective and credible means by which we can be alerted to wrongdoing that occurs under cover of secrecy. But if we permit the publication of such leaks, then we risk contaminating our public life with conspiracy and covert warfare, as not only good men and women but also partisans and zealots take advantage of anonymity to disclose information that suits their narrow purposes.”

Sagar, Rahul (2013): *Secrets and leaks. The dilemma of state secrecy*, Princeton University Press, Princeton, NJ.

155. Twenty lessons from the twentieth century

“History does not repeat, but it does instruct.” On number 5: “Authoritarians need obedient civil servants there is no such thing as ‘just following orders.’”

Snyder, Timothy (2017): *On tyranny. Twenty lessons from the twentieth century*, Tim Duggan Books, New York.

1. **Do not obey in advance.**
2. **Defend institutions.**
3. **Beware the one-party state.**
4. **Take responsibility for the face of the world.**
5. **Remember professional ethics.**
6. **Be wary of paramilitaries.**
7. **Be reflective if you must be armed.**
8. **Stand out.**
9. **Be kind to our language.**
10. **Believe in truth.**
11. **Investigate.**
12. **Make eye contact and small talk.**
13. **Practice corporeal politics.**
14. **Establish a private life.**
15. **Contribute to good causes.**
16. **Learn from peers in other countries.**
17. **Listen for dangerous words.**
18. **Be calm when the unthinkable arrives.**
19. **Be a patriot.**
20. **Be as courageous as you can.**

156. Rules of thumb to prevent disaster in policy-making

A “few rules of thumb that, if observed, could make development planning less prone to disaster.

- **Take small steps.** In an experimental approach to social change, presume that we cannot know the consequences of our interventions in advance. Given this postulate of ignorance, prefer wherever possible to take a small step, stand back, observe, and then plan the next small move.

- **Favor reversibility.** Prefer interventions that can easily be undone if they turn out to be mistakes. Irreversible interventions have irreversible consequences.

- **Plan on surprises.** Choose plans that allow the largest accommodation to the unforeseen.

- **Plan on human inventiveness.** Always plan under the assumption that those who become involved in the project later will have or will develop the experience and insight to improve on the design.”

Scott, James C. (1998): *Seeing like a state: How certain schemes to improve the human condition have failed*, Yale University Press, New Haven and London.

157. Algorithmic power (Jackie Wang, 2018)

“With the ascendency of algorithmic power in the Age of Big Data we are presented with a number of problems that are at once political and aesthetic (…) A job applicant might wonder, Why was my application rejected? *Because a private company gave you an e-score that indicates you are not credible*. Why was I given this score? What data was used to make such calculation? *We cannot tell you. We do not know*. Then how the fuck can I get out of the invisible box that hems me in? These new forms of power create the illusion of freedom and flexibility while actually being more totalizing in their diffuseness (…) Yet it is worth restating that when it comes to policing, soft power (algorithmic policing) has not replaced hard power (militarized policing)."

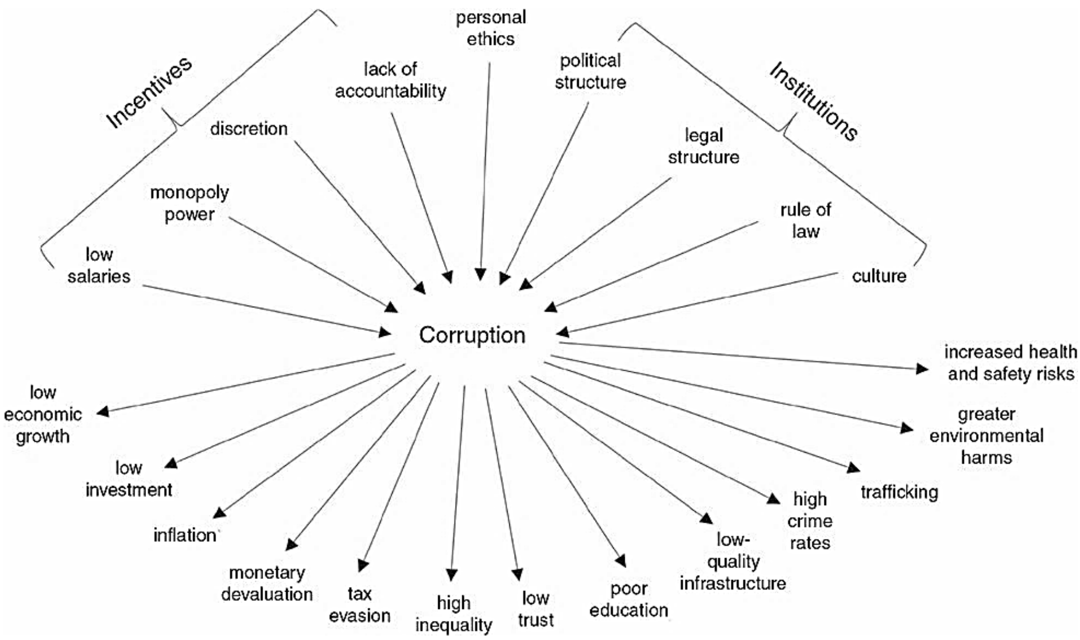
Wang, Jackie (2018): Carceral capitalism, Semiotext(e), South Pasadena, CA.

158. A sample of corrupt acts (Rose-Ackerman and Palifka, 2016)

Transparency International definition of corruption: "abuse of an entrusted power for private gain."

Measures of corruption: Corruption Perceptions Index (Transparency International, www.transparency.org) and Control of Corruption Indicator (World Bank, World Governance Indicators).

- **Bribery.** "The explicit exchange of money, gifts in kind, or favors for rule breaking or as payment for benefits that should legally be costless or be allocated on terms other than willingness to pay. Includes both bribery of public officials and commercial bribery of private firm agents."
- **Extortion.** "Demand of a bribe or favor by an official as a sine qua non for doing his or her duty or for breaking a rule. We treat extortion as a form of bribery where the bribe taker plays an active role. (Sometimes the rule is created by the extortionist in order to exact the bribe.)"
- **Exchange of favours.** "The exchange of one broken rule for another."
- **Nepotism.** "Hiring a family member or one with close social ties, rather than a more qualified but unrelated applicant."
- **Cronyism.** "Preferring members of one's group – racial/ethnic, religious, political, or social – over members of other groups in job-related decisions."
- **Judicial fraud.** "A decision based on any of the preceding types of corruption, or threats to the judge, rather than the merits of the case."
- **Accounting fraud.** "Intentional deception regarding sales or profits (usually in order to boost stock prices).
- **Electoral fraud.** "Manipulation of election results, through vote buying or threats to the electorate, or by falsification or destruction of votes."
- **Public service fraud.** "Any activity that undermines the legal requirements of public service delivery even if no bribes are paid. For example, teachers might provide students with the correct answers or change students' responses on standardized tests (usually in order to ensure funding). Health care providers might prescribe unnecessary tests or invent patients to increase reimbursements. Civil servants might neglect their jobs for private-sector work, steal supplies for resale, or simply not show up for work."



- **Embezzlement.** "Theft from the employer (firm, government, or NGO) by the employee."
- **Kleptocracy.** "An autocratic state that is managed to maximize the personal wealth of the top leaders.

- **Influence peddling.** "Using one's power of decision in government to extract bribes or favors from interested parties."
- **Conflicts of interest.** "Having a personal stake in the effects of the policies one decides."

Causes and consequences of corruption (Rose-Ackerman and Palifka, 2016)

Rose-Ackerman, Susan; Bonnie J. Palifka (2016): *Corruption and government. Causes, consequences, and reform*, Cambridge University Press, New York.

159. Graeber's Iron Law of Liberalism (David Graeber, 2015)

"The Iron Law of Liberalism states that any market reform, any government initiative intended to reduce red tape and promote market forces will have the ultimate effect of increasing the total number of regulations, the total amount of paperwork, and the total number of bureaucrats the government employs."

This law expresses a paradox: "…government policies intending to reduce government interference in the economy actually end up producing more regulations, more bureaucrats, and more police."

Graeber, David (2015): *The utopia of rules. On technology, stupidity, and the secret joys of bureaucracy*, Melville House, Brooklyn, NY.

160. We live in a deeply bureaucratic society (David Graeber, 2015)

"… we live in a deeply bureaucratic society. If we do not notice it, it is largely because bureaucratic practices and requirements have become so all-pervasive that we can barely see them— or worse, cannot imagine doing things any other way. Computers have played a crucial role in all of this. Just as the invention of new forms of industrial automation in the eighteenth and nineteenth centuries had the paradoxical effect of turning more and more of the world's population into full-time industrial workers, so has all the software designed to save us from administrative responsibilities in recent decades ultimately turned us all into part or full-time administrators."

Graeber, David (2015): *The utopia of rules. On technology, stupidity, and the secret joys of bureaucracy*, Melville House, Brooklyn, NY.

161. Role of the liberal class

The role of the liberal class in a traditional democracy is to ensure that reform remains a viable alternative. It is placed between the power elite and the general population. The liberal class controls the behaviour of (and civilizes) the power elite, offers hope for change to the general population, makes proposals to gradually reduce inequality and protect the weak, and becomes useful to power elite by discrediting proposals of radical change. In the last instance, the liberal class attributes legitimacy to the power elite and serves as a voice to the general population in their demands for change and improvement.

- One of the consequences of globalization has been the accumulation of economic power (and, through it, political influence and even political power) in the hands of multinational corporations. This power has been used to assault the traditional democracies and deprive the liberal class of its role as a safety valve. The role of the liberal class has been reduced to offer empty rhetoric. "The inability of the liberal class to acknowledge that corporations have wrested power from the hands of citizens, that the Constitution and its guarantees of personal liberty have become irrelevant, and that the phrase consent of the governed is meaningless, has left it speaking and acting in ways that no longer correspond to reality." (Hedges, 2010) Since the liberal class has lost its ability to articulate responses to discontent, it becomes more likely that populist movements and/or violence will arise to deal with the sources of discontent.
- One political lesson of history is that those in power that appear incapacable of performing their duties, and this notwithstanding persist in retaining their privileges, tend to be removed by force. By not fulfilling its traditional tasks the liberal class is exposed to the same fate: to be brutally discarded.
- An ineffectual (dead) liberal class creates a more polarized society: the power elite has no check to prevent the plundering of the economy and the general population increases its frustration and finds more attractive

finding solutions outside the democratic institutions or without the instruments of a traditional democracy. In killing the liberal class, the 'corporate class' behaves like a parasite that kills its host: without the liberal class the power elite is free to demolish the system of measures (welfare state) erected by the liberal class to protect the general population from the inequities of the economic system.

Hedges, Chris (2010): *Death of the liberal class*, Nation Books.

Mau, Steffen (2015): *Inequality, marketization and the majority class. Why did the European middle classes accept neo-liberalism?*, Palgrave Macmillan, New York.

162. The paradox of power (Jack Hirshleifer)

In power struggles, it is natural to expect that the strong will grow stronger (and the weak, weaker). The paradox of power is that poorer or smaller groups often end up improving their positions in relation to richer or larger ones. One explanation is that the group starting at a disavantage has an incentive to make more effort (fight harder, invest more, take more risks, try new strategies) than the group enjoying an advantage. It is only when the conflict is sufficiently decisive that the richer or larger group gains relative to the poorer or smaller. The paradox explains the adoption of policies that redistribute income from the rich to the poor.

163. The retreat of the welfare state in the last two decades

- Dominant explanation? The retreat of the welfare state is a forced adaptation to changing circumstances. Enjoying a welfare state is like living beyond one's means. The welfare state started to be dismantled once politicians realized the insustainability of the welfare state.
- Alternative view (Giacomo Corneo, 2017): capitalism is inconsistent with the welfare state. Specifically, the capitalist system (= markets + private ownership of the means of production) tends to repel collective welfare systems. The welfare state emerged as a response to the threat of rebellion by industrial workers and lasted thanks to accidental and exceptionally favourable circumstances (world wars, global depression, cold war). Once these circumstances disappear, capitalism returns to normal and its working starts deteriorating the welfare state. If capitalism is not subject to control, the erosion of the welfare state will continue. If the mechanisms endangering the welfare state are not confronted,

> "capitalism's friendly mask will keep slipping, revealing its original face. It will return to its default operating mode—as a system in which most people are abandoned to their fates and exposed to the vicissitudes of the market without any protection, and in which there are no limits to economic and social in equality. Implied by this line of thought is a need for constant work to defend the value of the welfare state." (p. 231)

It is only through politics that the welfare state can be protected against capitalim. Without that protection, the welfare state eventually becomes extinct. In this respect, Corneo (2017, App.) makes a proposal for increasing public ownership of capital (for instance, by generalizing sovereign wealth funds, such as those existing in Alaska, Australia, New Zealand and Norway, and make those funds socially responsible).

> "A high level of wealth in equality is a threat to both shared prosperity and democracy. Public capital can play a crucial role in counteracting that threat. It can generate a social dividend for every citizen and it can spur individuals' participation in their workplaces and the political arena. By doing these things, public capital can break the vicious circle of increasing wealth concentration and political capture, contribute to more equality of opportunity, and reduce the transaction costs of financial investment." (p. 282)

Corneo, Giacomo (2017): *Is capitalism obsolete? A journey through alternative economic systems*, Harvard University Press, Cambridge, MA.

164. Old power vs new power: stock vs flow (Jeremy Heimans and Henry Timms, 2018)

- "Old power works like a currency. It is held by few. Once gained, it is jealously guarded, and the powerful have a substantial store of it to spend. It is closed, inaccessible, and leader-driven. It downloads, and it captures.

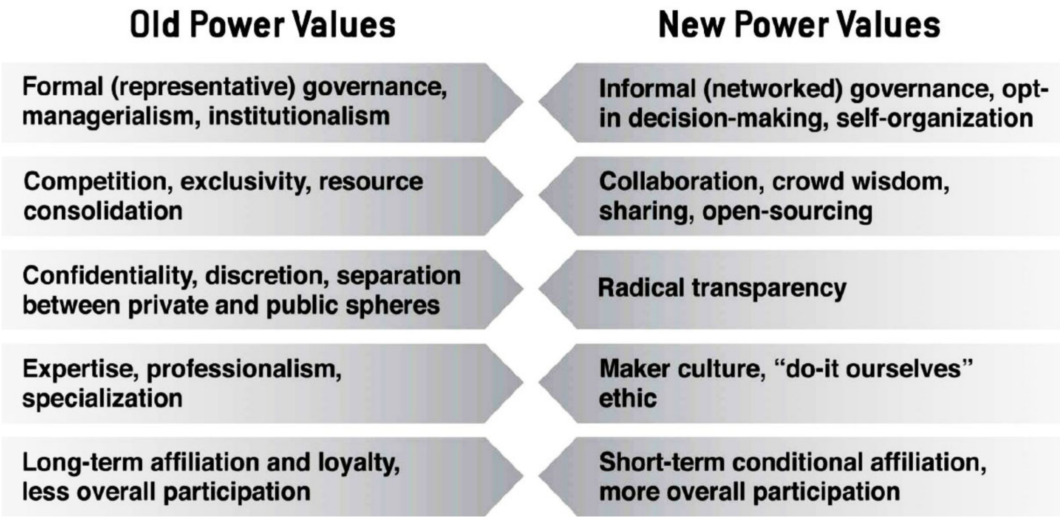
- New power operates differently, like a current. It is made by many. It is open, participatory, and peer-driven. It uploads, and it distributes. Like water or electricity, it's most forceful when it surges. The goal with new power is not to hoard it but to channel it."

"Thanks to today's ubiquitous connectivity, we can come together and organize ourselves in ways that are geographically boundless and highly distributed and with unprecedented velocity and reach. This hyperconnectedness has given birth to new models and mindsets that are shaping our age (…) That's the 'new' in new power (…) The future will be a battle over mobilization. The everyday people, leaders, and organizations who flourish will be those best able to channel the participatory energy of those around them—for the good, for the bad, and for the trivial."

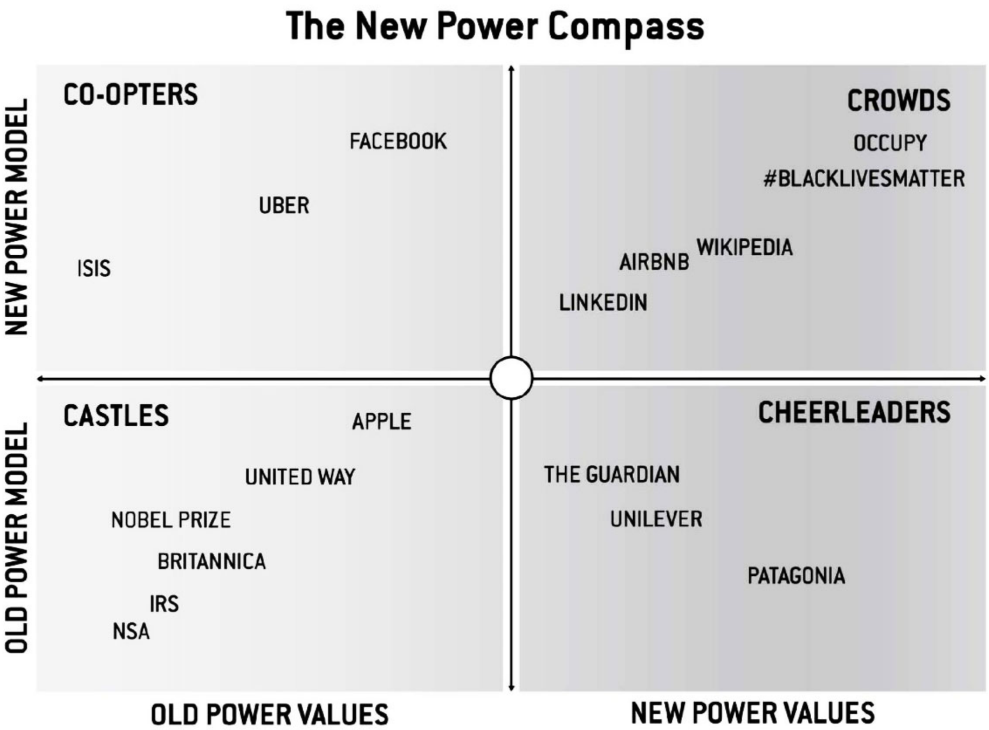
- "An ACE idea: An idea designed so that the crowd will take hold of it and spread it. It is *actionable* because it is designed to make a user do something, *connected* because it makes a user feel part of a like-minded community, and *extensible* because it is structured with a common stem that encourages its communities to alter and extend it."

"New power is here to stay and is, in many sectors, ascendant. In the right hands, it is doing wonders: the crowd-sourced drug trials; the fast-growing movements in the name of love and compassion. Yet in the wrong hands, as we see with ISIS or the growing hordes of white supremacists, these same skills can be enormously destructive."

Heimans, Jeremy; Henry Timms (2018): *New power: How power works in our hyperconnected world—and how to make it work for you*, Doubleday, New York.



The two mindsets doing battle in today's world: formal vs. informal governance; competition vs. collaboration; confidentiality vs. radical transparency; experts vs. makers; long-term vs. transient affiliation.



"The horizontal axis tracks the values of an organization: whether it exhibits new or old power values. The vertical looks at its model: whether it is a new power model designed and structured to encourage mass participation and peer coordination or an old power model that asks us to do little more than comply or consume."

165. The two mindsets in today's world and the new power compass (J. Heimans and H. Timms, 2018)

"The twentieth century was built from the top down. Society was imagined as a great machine, intricately powered by big bureaucracies and great corporations. To keep the machine humming, ordinary people had critical, but small and standardized, roles to play (…) Yet the rise of new power is shifting people's norms and beliefs about how the world should work and where they should fit in. The more we engage with new power models, the more these norms are shifting. Indeed, what is emerging—most visibly among people under thirty (now more than half the world's population)—is a new expectation: an inalienable right to participate."

166. The death of conflict hypothesis

The expression 'death of conflict' captures the idea that the adoption of a core of values and principles in a society will bring social conflict/tensions to an end. Societies become like markets, where interaction/competition is peaceful. The 'rationality' of technology spreads to the social world: social problems can be solved 'technically.' In the end, a stable social order is reached and the interests of all the groups are reconciled. Globalization is said to dissolve the sources of social and political conflict.

Amoore, Louise (2002): *Globalisation contested. An international political economy of work*, Manchester University Press, Manchester and New York.

167. Democratic peace correlation: why do democracies not fight each other?

"Perhaps the simplest explanation for where fault lines lie in a political process involves the presence of an 'other.' Difference divides and similarity unites. These similarities and differences can in turn orient and propagate conflict. Yet, similarity and difference are also dynamic, evolving in response to changing population characteristics or a new reference point. We offer a simple explanation for interstate conflict in which the salience of similarity or difference varies with the prevalence or capabilities of groups. We apply our argument in the context of the democratic peace. When democracies are scarce or weak, and autocracies plentiful and powerful, democracies face a common threat. As the democratic community strengthens, however, the threat from autocracies declines and differences among democracies appear more salient. Our findings contrast with standard expectations about how democratization shapes world affairs."

Gartzke, Erik; Weisiger, Alex (2013): "Permanent friends? Dynamic difference and the democratic peace", International Studies Quarterly 57(1), 171-185.

Dafoe, Allan; Oneal, John R.; Russett, Bruce (2013): "The democratic peace: Weighing the evidence and cautious inference", International Studies Quarterly 57(1), 201-214.

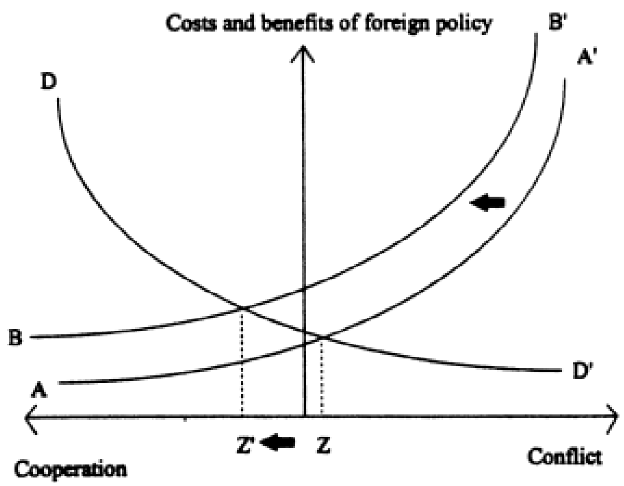
168. Democratic vs economic peace: contract flows within nations may cause both democracy within nations and peace among them.

"Recent studies show that the democratic peace correlation is not significant once the potentially confounding variable that can cause both democracy and peace, contract-intensive economy, is considered; this pattern holds in analyses of wars, fatal militarized interstate conflicts, and interstate crises. These studies rescind the primary evidence for democracy being a cause of the democratic peace and indicate that contract-intensive economy is the more likely explanation for it. This article addresses all recent defenses of the democratic peace correlation, reports results using a new measure of contract flows, and extends the investigation to all militarized interstate conflicts. Analyses of most nations from 1961 to 2001 show that there is no correlation of democracy with peace, and contract-intensive economy is one of the most powerful nontrivial variables in international conflict. The era of the democratic peace appears to be at an end, subsumed by an economic peace."

Mousseau, Michael (2013): "The democratic peace unraveled: It's the economy", International Studies Quarterly 57(1), 186-197.

169. War and trade

"Liberal theories generally assume that political leaders are deterred from engain conflict when they anticipate that conflict will disrupt or eliminate trade or adversely affect the terms of trade, so the hypothesis that trade deters war rests on the assumption that war impedes trade. Realist theories suggest that the concern over relative gains will lead at least one of the belligerents to terminate trade in order to prevent its adversary from using the gains from trade to increase its relative military power."



Barbieri, Katherine; Jack S. Levy (1999): "Sleeping with the enemy: The impact of war on trade", Journal of Peace Research 36(4), 463-479.

Barbieri, K. (1996): "Economic interdependence: A path to peace or a source of interstate conflict?", Journal of Peace Research Volume 33(1), 29-49.

Optimal level of conflict

Barbieri, K.; Schneider, G. (1999): "Globalization and peace: Assessing new directions in the study of trade and conflict", Journal of Peace Research 36(4), 387-404.

Barbieri, Katherine (2002): *The liberal illusion. Does trade promote peace?*, University of Michigan Press.

170. Why do states ratify international treaties?

"Why do states ratify international treaties? While previous research has emphasized domestic political factors, we focus on power politics in situations in which powerful states disagree on the merits of a treaty. We argue that states supporting the status quo should discourage third parties from ratifying the treaty, whereas challenger states should entice them to do so. Based on this theory, we expect third parties' ratification decisions to be influenced by their dependence on the conflicting states. To test the theory, we use data on the conflict between the United States and the European Union over the regulation of trade in genetically modified organisms. The European Union created a new treaty, the Cartagena Protocol, to enhance biosafety regulation and propagate the 'precautionary principle' over the 'sound science principle' defended by the United States. Our quantitative analysis shows that ratification decisions of third parties were influenced by relations to and dependence on the clashing giants."

Schneider, Christina J.; Urpelainen, Johannes (2013): "Distributional conflict between powerful states and international treaty ratification", International Studies Quarterly 57(1), 13-27.

171. Preferential trade agreements

"The growing number of preferential trading arrangements (PTAs) since World War II has generated substantial interest in their economic and political effects. It has also prompted interest in the factors that give rise to PTAs, but very little research has been conducted on the growth of extant PTAs. To address this shortcoming, we analyze why some arrangements expand, whereas others do not. We find strong evidence that expansion is most likely when the existing members of a PTA display a high degree of trade openness and when the size distribution of these members is fairly uniform. We also find that PTAs that add new members are likely to do so again in the near future and that, throughout the global system, PTAs tend to expand in clusters. Equally, there is some indication that the market size of a PTA affects its odds of expansion. Finally, we investigate which states join enlarging PTAs. We find that PTAs expand by taking on new members that are economically and politically similar to existing members."

Mansfield, Edward D.; Pevehouse, Jon C.W. (2013): "The expansion of Preferential Trading Arrangements", International Studies Quarterly Volume 57(3), 592-604.

172. Does violence backfire?

"Implicit in the rationalist literature on bargaining over the last half-century is the political utility of violence. Given our anarchical international system populated with egoistic actors, violence is thought to promote concessions by lending credibility to their threats. From the vantage of bargaining theory, then, empirical research on terrorism poses a puzzle. For nonstate actors, terrorism signals a credible threat in comparison with less extreme tactical alternatives. In recent years, however, a spate of studies across disciplines and methodologies has nonetheless found that neither escalating to terrorism nor with terrorism encourages government concessions. In fact, perpetrating terrorist acts reportedly lowers the likelihood of government compliance, particularly as the civilian casualties rise. The apparent tendency for this extreme form of violence to impede concessions challenges the external validity of bargaining theory, as traditionally understood. In this study, I propose and test an important psychological refinement to the standard rationalist narrative. Via an experiment on a national sample of adults, I find evidence of a newfound cognitive heuristic undermining the coercive logic of escalation enshrined in bargaining theory. Due to this oversight, mainstream bargaining theory overestimates the political utility of violence, particularly as an instrument of coercion."

Abrahms, Max (2013): "The credibility paradox: Violence as a double-edged sword in international politics", International Studies Quarterly Volume 57(4), 660-671.

173. Domestic dimension of trade and conflict

"Liberal international relations theory suggests that mutual gains from trade prevent conflict between states (…) This paper examines the influence of economic interests arising from international trade on the policy-making process at the domestic level. If the benefits of trade increase the opportunity cost of conflict, then support for a harmonious foreign policy should be strongest among trade's domestic beneficiaries. Those whose income is diminished by trade have no reason to favor a friendly foreign policy and might even prefer a hostile alternative. We test whether the domestic distributional effects of trade affect support for hostile foreign policies toward China among representatives in the US Congress. An analysis of cosponsorship and roll-call voting suggests that the export orientation and import sensitivity of their districts influences members' positions on measures that criticize Chinese policies or treat the country as a security threat."

Kleinberg, Katja B.; Fordham, Benjamin O. (2013): "The domestic politics of trade and conflict", International Studies Quarterly 57(3), 605-619.

174. World War I, trade and conflict

"The First World War is often cited as proof par excellence of the flaws in the liberal peace argument because the adversaries it engaged had been each other's major pre-war trading partners. Although commonly assumed to have wreaked havoc on the trade of the states it engaged, the war's impact on commerce has rarely been rigorously examined. Using an original dataset, this study shows that the Great War triggered substitution processes that reduced its trade-related costs. Although recourse to second-best alternatives always induces efficiency losses, the costs of adjustment were small relative to the other costs that states incurred during the war. The analysis shows that the Great War is not the egregious exception to the theory that conventional wisdom has long assumed it to be. At the same time, it makes clear that the deterrent power of trade varies inversely with belligerents' ability to access the markets of alternative trading partners."

Gowa, Joanne; Hicks, Raymond (2015): "Commerce and conflict: New data about the Great War", British Journal of Political Science 1-22.

175. Globalization and conflict

"… most of the Wall Street funding is in speculation. At least 90% of the trading that goes on in Wall Street has nothing to do with assisting real businesses (…). Financiers are just gambling by exchanging pieces of paper in expectation of either a bubble or a fall. This has absolutely nothing to do with real wealth. When we are told that the economy is expanding, it actually means that rich people are getting richer or getting richer faster than the rest of us. Money managers are now running the global economic system."

"Any understanding of how a corporate elite dominates global development owes much to the personal history of John Perkins (…). His clandestine position, first with the National Security Agency and then transferred to a private company, was predicated upon an ability to make inflated economic forecasts and sell large loans to heads of state in undeveloped countries. The loans were always for the development of infrastructure, oil drilling and pipelines, dams, electric power grids, and building complexes. The contracts would be awarded to giant corporation giants like Bechtel or Halliburton. The inducements to foreign leaders included military and police aid, lucrative fi nancial benefits, recognition in US diplomatic circles, and even the procurement of personal mistresses (...). The contracts would make a small group within the accepting country very wealthy. They would make the particular nation a client state, dependent upon further loans and adjustments to repay the debts and unable, therefore, to use the country 's resources for sustainable productivity for its farmers, education and healthcare for its children, and protections for its environment."

"The manipulation of local economies has been part of a worldwide effort to impose what has been labeled the Washington Consensus. This has been forced on developing countries via procedures of the US government, the World Bank, the International Monetary Fund, and the World Trade Organization. The basic tenets are reforms calling for economic deregulation, privatization, encouragement of foreign investment, unrestricted movement of capital, liberalization of trade policies, and reduction in public expenditures. This program of 'neoliberalism' has been aggressively pushed as primary US foreign policy." [Washington Consensus = stabilize + liberalize + privatize]

"Increasingly, US strategy has been to support governments subservient to US corporate interests and to provide the military aid that keeps them in power. Such governments are associated with financial indebtedness and military control over their dissenters (...) It is an elite network of diplomatic, financial, and military ties that determines the paths of information and influence."

"Globalization fuels a conflict for jobs. One of the great economic trends of the past 50 years has been the movement of the industrial heartland of America from the Midwest to China, to India, and to the developing world. Labor organizers in every continent are harassed and in fact killed while profits, drained from local communities by transnational corporations, go to enlarge remote financial empires."

"The top officials and board members of international corporations reap the benefits of environmental degradation. With environments destroyed, no new frontiers to exploit, and middle-class consumers lacking credit to fulfill heavily marketed needs, the global elite have created fictitious transactions as a justification for collecting fees from the system."

"The total financial claims built up through the bubble greatly exceed the real wealth of the planet, which means that they are fictitious and can never be realized. Money in the global economy has been changed from a medium of value to a storehouse of expectations. It is drained from the environment and from communities and it accumulates at the top (...) The excessive wealth of a small few is astounding: '793 billionaires possess $2.6 trillion dollars' (...) The answer to exploitative economic globalization is to dismantle and decentralize corporate entities that have grown too large to fail."

"We have monetized the economy and a part of that process is monetizing relationships (...). This diminishes our humanity. When everything has a price then nothing, neither the purity of water nor the sound of songbirds, is sacred. In a world that has become so intricately interconnected it is no longer satisfactory to solve one problem at a time without regard for the impact of the solution on other people and places."

Pilisuk, Maarc; Gianina Pellegrini (2012): "Globalization and Conflict", in Daniel J. Christie, ed.: *The encyclopedia of peace psychology*, Blackwell.

Perkins, J. (2006): *Confessions of an economic hitman*, Plume.

Pilisuk, M. (with J. A. Rountree) (2008): *Who benefits from global violence and war. Uncovering a destructive system*, Greenwood/Praeger.

176. Globalization, democracy and peace

"What explains the democratic revolution? Is democracy for everyone? There is clearly a correlation between economic and political development. The demands for political rights and representation grow along with a middle class. Certainly there is a link between economic prosperity and political freedom. The more people have of one, the more they tend to demand the other. Although most cultures do not have democratic values of political equality and liberty, democracy has become a universal good. Virtually every regime, even the most despotic, claims to be democratic in some ways (...) Any victory celebration over liberal democracy's triumph may be premature. (...) Samuel Huntington rejects Fukuyama's 'everyone is becoming more like us' theory. Geopolitics did not end with the fall of the Berlin Wall in 1989. Indeed, the fall of the World Trade Center in 2001 symbolized the emergence of a form of global politics that is increasingly shaped by the clash among civilizations rather than nation-states (...) War will increasingly be within rather than between nation-states or will pit a transnational terrorist group like Al Qaeda versus sovereign states and their transnational allies. While the world unites in many ways, parts of it are rapidly disintegrating into civil war and anarchy as long suffering minorities, or in the case of Kosovo, majorities, revolt against the dominant nationality. Nationalism rather than internationalism is the driving force behind the independence struggles of scores of suppressed peoples around the world. Many of those conflicts are also fueled by religious extremism, especially among Muslims (…) Geopolitics will not disappear from the earth any time soon."

Nester, William R. (2010): *Globalization, war, and peace in the twenty-first century*, Palgrave Macmillan.

177. Predatory versus cooperative globalization

"The recent collapse of the international financial system, followed by the worst economic crisis since the 1930s, is the latest reminder of the extent to which national standards of living and social wellbeing have become dependent on developments in the rest of the world. Even the largest economies are unable now to maintain these standards without the active cooperation of other countries (…) Is the process of globalization that has accelerated since the early 1980s sustainable without fundamental changes in national attitudes, institutions and policies? If necessary, what would such changes require and why."

"Contrary to what one might expect (…) there is little agreement about the meaning of the term [globalization], even less agreement about the processes that bring it about and no agreement at all about its effects on *global* prosperity, social wellbeing, political stability and peace. As a result, the world is undergoing profound economic, cultural and institutional changes that are imperfectly understood despite the general recognition that, because of their potential consequences, they require urgent attention. The problem arises from the failure to distinguish clearly between the two closely related processes involved in shaping human behaviour (individual and collective) in the process of globalization: the economic and the political."

"… according to neoliberal 'free market' ideology, universal acceptance of the key economic aspects of globalization (free trade, free capital and labour movements), combined with unregulated competition on a unified global market, will eliminate the eternal problems of absolute and relative poverty. It will achieve such an outcome (…) 'automatically' because everyone who competes in the market has access to the same opportunities, resources and information as well as the same foresight! In other words, the conclusion that follows from this kind of 'analysis' is that the political aspect of the globalization process can be ignored."

"The severe economic crisis that the world is currently experiencing is not so much the result of either 'globalization' or 'capitalism' per se as of the particular form of both adopted by individual countries. These differences are particularly large (…) between the cooperative (social democratic and corporatist) and the predatory ('free market'/laissez-faire) models. The former recognizes the importance of collective action and, therefore, cultivates consensus and collaboration. The latter rejects them in order to allow powerful individuals and groups the freedom to make use of human and other resources in ways that 'maximize' most effectively their own – rather than social – wealth, influence and power (…) Contrary to neoliberal claims, the predatory ('free market') form of capitalism –the driving force behind the rapid international economic integration since the 1980s irrespective of its social and political consequences– is fundamentally an antithesis of the old cosmopolitan goal of a world in which different nations and cultures coexist and collaborate peacefully for the good of all."

178. Common features of global economic crises (1870s, 1930s, 2000s)

"First, all three happened during the periods (the 1870s, 1930s and 2000s) when the 'free market' model of capitalism was the dominant form of economic and social organization in many of the world's leading economies and, as a result of their global influence, in the ascendancy internationally.

Second, thanks to its dominance in these countries, the same ideology also permeated international economic relations, determining the regimes for trade, payments and long-term capital flows. Independent states were under pressure from the most powerful countries to liberalize their trade and/or join international monetary unions irrespective of their levels of development and, therefore, their ability to compete with more advanced economies. The outcome was therefore the same in all three periods: large increases in inequalities of income and wealth, both nationally and globally, causing widespread breakdowns in social cohesion and political consensus.

Third, despite significant increases in international economic interdependence, no effort was made during the three periods to create a framework of global institutions that would help nation states solve through cooperation problems that were beyond the capacity of any one country to resolve in isolation (...) An important reason behind the drive by transnational corporations for the liberalization of trade and capital movements is that it enables them to avoid (...) effective regulation and supervision by national governments. Not surprisingly, there has been a significant increase in the frequency and scale of international financial crises since the early 1980s (...). The creation of a global market without a global political authority is, therefore, the nearest equivalent to a world of laissez-faire in which those who control giant transnational enterprises, rather than democratically elected governments, effectively set the rules that determine how and in whose interests the economic system operates."

"Fourth, the problem (...) is that this is a form of global economic interdependence and international relations that is unsustainable. Economic success at all levels of development requires (...) an ideology and institutions that promote a harmony of interests, consensus and cooperation. Globalization makes such a requirement even more imperative at the international level (...) The more cooperative form of capitalism (social democracy) demonstrated after the Second World War both nationally and internationally (...) the extent to which different outcomes are possible within a market-based economy (...) The post-war experience demonstrated an important fact: in its *social democratic* form, capitalism was able to achieve, in the small number of countries that adopted it, the highest levels of economic, social and political wellbeing that humanity has ever experienced."

179. EMU

"The most distinctive feature of the European Monetary Union (EMU) is its uniqueness. It is impossible to find a single case since the beginning of the Industrial Revolution where a number of independent, sovereign states have created a *complete* monetary union with a common currency, central bank, monetary and exchange rate policies without first establishing a *political* union! (...) A political union becomes essential, therefore, if the constituent countries/regions are to be able: (a) to share similar values and goals; and (b) to mobilize their resources for the provision of public goods that benefit the whole union. It is also needed for creating the common institutions without which it is virtually impossible to pursue with consistency the objectives and policies that, by keeping regional and personal inequalities within socially acceptable limits, make it possible for the whole union to work towards the same goals without coercion (...) The greatest danger confronting the EMU in its present form is that economic stagnation in member countries, and the restrictions imposed on the ability of national governments to prevent it, are raising serious doubts about its long-term viability. Inflation apart, the European Central Bank shows little sensitivity to the economic problems of member countries (...) Economic and social inequalities within the eurozone are greater than in any of its member states. What is more, they are increasing (...) For the socio-economic benefits of such a union to outweigh the costs, it is imperative for the countries to create an institutional framework that ensures long-term improvement (...) in the economic security and welfare of *all* member states."

Panić, Milivoje (2011): *Globalization. A threat to international cooperation and peace?*, Palgrave Macmillan.

180. When to create a monetary union?

"When is it appropriate to have a monetary union? It turns out that the trade-offs between the economic advantages and disadvantages of a common currency are essentially a function of the degree of economic and cultural integration between the member countries. As illustrated in Fig. 8.5 [on the right], the advantages of a common currency tend to increase, whereas the disadvantages tend to decrease, when the involved economies are more interconnected."

Nils Herger (2019): *Understanding central banks*, Springer.