5. Dilemes i trilemes financers internacionals

"It's our currency, but it's your problem."
John B. Connally (1917-1993) , US Secretary of Treasury, 1971

"... les hommes n'acceptent le changement que dans la nécessité et ils ne voient la nécessité que dans la crise." ("People only accept change when necessary and only see necessity in crisis.")
Jean Monnet (1888-1979), French civil servant and diplomat, and first person to be designated, in 1976, as an Honorary Citizen of Europe, *Mémoires*, ch. 5, 1976

"Nobody may love the dollar standard, but it is too valuable to lose and too difficult to replace."[1]
Ronald I. McKinnon (1935-2014), Professor of Economics, Stanford University, 2010

"Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough."
Mario Draghi (b. 1947), Italian economist, banker and prime minister, speech at the Global Investment Conference in London, 26 July 2012

"... whilst banks may be global in life they are national in death."[2]
Mervyn King (b. 1948), ex-Governor of the Bank of England (2003-2013)

"Monetary discipline forces fiscal discipline on the politicians as well."[3]
Robert A. Mundell (1931-2021), Nobel Memorial Prize in Economic Sciences in 1999

"Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity."
The Schuman Declaration (9 May 1950)

"Providing reserves and exchanges for the whole world is too much for one country and one currency to bear."[4]
Henry H. Fowler (1908-2000), U.S. Secretary of the Treasury (1965-1968)

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[1] 'Rehabilitating the unloved dollar standard', Working Paper 419, Stanford Center for International Development.

[2] Quote attributed to Mervyn King in 'Banking Crisis: regulation and supervision', Fourteenth Report of Session 2008–09, published in 2009 by The House of Commons (p. 47).

[3] Quote attributed to Robert Mundell by Greg Palast in "Robert Mundell, evil genius of the euro", The Guardian, 26 Jun 2012, https://www.theguardian.com/commentisfree/2012/jun/26/robert-mundell-evil-genius-euro .

[4] Quoted in https://www.imf.org/external/np/exr/center/mm/eng/mm_sc_03.htm .

1. A general trilemma on goals and means

Tension between

- the achievement of global goals,
- the achievement of domestic goals,
- the use of domestic tools to achieve the goals.

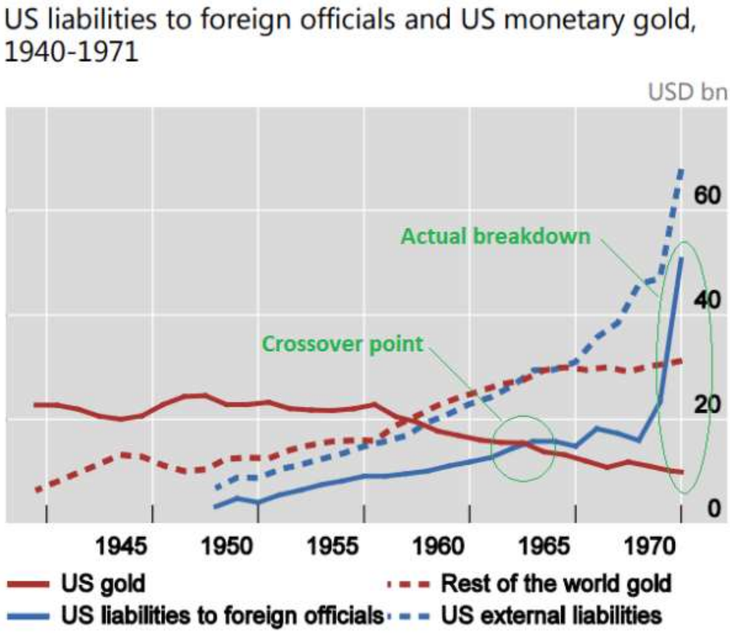
2. The Triffin dilemma (Robert Triffin, 1960)

In the context of the Bretton Woods international monetary system the Triffin dilemma asserts that there is a tension between

Robert Triffin

- satisfying an increasing international demand for dollars (the global goal of sufficient international liquidity) and
- keeping the US compromise of convertibility of dollars into gold at a fixed rate of 35 dollars per ounce of gold (the US domestic goal of preserving the value of dollars in gold).

The Triffin dilemma identifies the following problem in the Bretton Woods international monetary system. The US trade deficit was the source of global liquidity. If the US stopped running a trade deficit, then the global liquidity shortage would cause a global recession. If the trade deficit continued, global liquidity would become excessive ('a dollar glut'), confidence in the value of the dollar would be eroded and the dollar would cease to be accepted as the global currency.



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

IMF: "Triffin's dilemma", https://www.imf.org/external/np/exr/center/mm/eng/mm_sc_03.htm.

3. The Triffin dilemma expressed as a trilemma

Since the Triffin dilemma presumes that both goals (enough global liquidity and guarenteed convertibility of dollars into gold) are to be achieved with a domestic instrument (the US national currency), it could be formulated as a trilemma (and, more specifically, as a particular case of the general trilemma).

The Triffin trilemma would claim the existence of a tension between

- the provision of enough global liquidity,
- the convertibility of dollars into gold (at a given fixed rate), and
- the use of the dollar as the global reserve currency.

Thus, one cannot expect from a national currency to simultaneously and sustainably provide global liquidity and preserve the confidence in the currency as a global currency. The first goal (supply abundant liquidity) is associated with running an increasing current account deficit, which endangers the second goal (the achievement of domestic goals may force the adoption of measures to stop the deficit growth).

Consequently, given a relatively fixed amount of gold, trying to achieve the first goal with an increasing demand for global liquidity endangers the credibility of the convertibility commitment. As in a bank run, the perception that the amount of dollars in the global economy is excessive in relation to the US gold reserves will cause a massive demand for converting dollars into gold. The prediction implicit in the Triffin dilemma is that convertibility (not the use of the dollar as a global currency) will be sacrificed.

4. A new Triffin dilemma

The tension expressed by the Triffin dilemma seems to remain still valid. As a result, a new Triffin dilemma has been formulated, which claims that there is a tension between

- satisfying an increasing international demand for dollars and
- preserving the purchasing power of dollars.

Therefore it seems hard to reconcile the provision of massive amounts of dollars to satisfy the global demand for liquidity and the keeping of a stable value of the dollar. As in the original Triffin dilemma, a national currency cannot provide liquidity and confidence (in the currency's value) for long.

5. A new Triffin trilemma

The previous new Triffin dilemma could be presented as a trilemma opposing

- trust in the dollar as a stable store of value;
- trust in the US (government and/or economy) to guarantee the dollar stability;
- trust in the dollar as a global reserve currency (meaning that one believes that everybody else trusts the dollar as a stable store of value).

6. A Triffin general dilemma

Tommaso Padoa-Schioppa (2010) suggested a Triffin general dilemma:

T. Padoa-Schioppa

> "En l'absence d'une autorité publique qui oeuvre pour 'ce qui est bon pour le monde', la simple moyenne de politiques conduites avec des objectifs nationaux ne peut produire ce bien public mondial que constitue une ancre monétaire stable à l'échelon mondial. En conclusion, il n'existe aucune piste pour contourner la nécessité d'une structure de policy qui ancre le standard global à un objectif de stabilité mondiale."
>
> "What we might call Triffin's 'general dilemma' can thus be expressed as follows: 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."

The Triffin general dilemma can be viewed as the general trilemma itself, as it postulates the tension between

- the stability of an international monetary system (the global goal),
- the lack of supranational tools (so domestic tools are used in a rather uncoordinated manner), and
- the use of domestic policies mainly to achieve domestic goals.

This analysis is connected with Jan Tinbergen's basic rule of economic policy: use at least as many policy tools as policy goals. For the trilemma above (or the general trilemma at the beginning) to fail a single instrument (domestic tools) must in general be capable of delivering two goals (the domestic and the global ones). Tinbergen's rule says that one should not expect to always kill two birds with one stone.

Padoa-Schioppa, T. (2010): "L'ombre de Bancor: la crise et le désordre monétaire mondial", https://institutdelors.eu/publications/lombre-de-bancor-la-crise-et-le-desordre-monetaire-mondial-discours-de-tommaso-padoa-schioppa/ .

Padoa-Schioppa, T. (2010): "The ghost of Bancor: The economic crisis and global monetary disorder", Louvain–la–Neuve, 25 February 2010.

7. The safe assets dilemma (M. Bordo and R. McCauley, 2017)

The original Triffin dilemma can be seen as presenting a medium to long-run incompatibility between growth and stability: the unbalanced growth of a monetary magnitude (the amount of dollars outside the US economy) generates systemic monetary instability (collapse of an international monetary system based on the dollar a global currency).

Michael Bordo

Robert McCauley

The safe assets dilemma is another instance of instability caused by unsustainable growth.

The Triffin dilemma claims that the global demand for a stock (US international liabilities) would outgrow the US official holdings of another stock (gold).

The safe assets dilemma holds that the global demand for another stock (US Treasury liabilities) would outgrow a flow (the US GDP, a flow that provides the taxes that the conventional approach to macroeconomics sees as necessary to service the Treasury's debt; by contrast, Modern Monetary Theory contends that a government running a debt in its own currency has no financial constraint and that taxes are not a funding device but a tool to regulate aggregate demand and inflation).

In sum, the safe assets dilemma identifies a tension between

- satisfying an increasing international demand for a safe dollar-denominated asset (US public debt) and

- trusting the ability of the US economy to generate funds to repay the US public debt.

Bordo, Michael; Robert McCauley (2017): "A global shortage of safe assets: A new Triffin Dilemma?", Atlantic Economic Journal 45(4), 443-451.

8. The financial trilemma (Dirk Schoenmaker, 2009)

Dirk Schoenmaker

The financial trilemma sees a tension between:

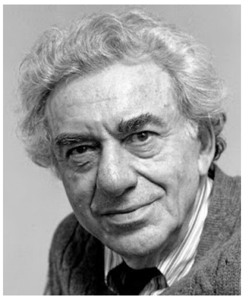
- financial stability;
- international financial integration (or international banking); and
- national financial supervision (or exclusively national prudential financial policy).

The financial trilemma posits that financial openness is a threat to financial stability when financial supervision and financial policy is just a national responsibility. In other words, without international financial coordination global financial integration produces financial instability.

Schoenmaker, Dirk (2009): "The financial crisis: Financial trilemma in Europe", https://cepr.org/voxeu/columns/financial-crisis-financial-trilemma-europe

Schoenmaker, Dirk (2011): "The financial trilemma", Economics Letters 111(1), 57–59.
https://www.econstor.eu/handle/10419/87091, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2243105

9. Minsky's Financial Instability Hypothesis



Hyman Minsky

Hyman Minsky suggested the Financial Instability Hypothesis as a theory of the business cycle according to which the stability of a capitalist financial system is ultimately destabilizing.

Financial markets can be viewed as entities that transform stability into instability. 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 the prudential rules of less expansionary periods when incurring debt. Therefore more debt accumulates and the boom goes on… until it cannot; that is, until lenders perceive that lending has been excessive or repayment is less likely than before.

A Minsky moment (also called 'Wile E Coyote moment'; see the image below) is the time when the perception that indebtedness is excessive or repayment more doubtful has become widespread (when the general impression is the world is floating in debt). It is followed, to increase liquidity, by massive sales of financial assets, which in turn precipitate a market crash.

The Financial Instability Hypothesis holds that "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 explains the transition from a stable to an unstable financial system in terms of three types of finance. In hedge finance cash flows are enough to meet all payment commitments on debt. With time, hedge finance tends to be displaced by speculative finance, where cash flows are insufficient but expected future cash flows would be enough to cover all debt payments. Again, with time (that is, with 'stability') speculative finance tends to be replaced by Ponzi finance, which occurs when debt can only repaid with more debt. Ponzi finance cannot go on forever at a general scale (arguably 'too big too fail' entities might live out of Ponzi finance).

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.

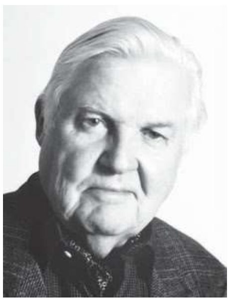
10. A Minsky trilemma

Minsky's Financial Instability Hypothesis could be formulated as a trilemma claiming the inconsistency of:

- a <u>growing economy</u> (or a continuous increase in debt);
- a <u>stable financial system in the short to medium run</u>; and
- a <u>stable financial system in the long run</u>.

Insofar as economic (and debt) growth is unstoppable in a capitalist economy, financial stability cannot last (what does a growing economy financially stable in the long run but financially stable in the short to medium run look like?).

11. The open economy trilemma (R. Mundell, M. Fleming)



Robert A. Mundell

J. Marcus Fleming

The open economy trilemma tells that the following policy goals are hard to reconcile:

- <u>financial integration</u> (money is free to leave or enter the economy: currency markets are not controlled);
- <u>monetary independence</u> (the domestic price of money, the interest rate, can be freely chosen); and
- <u>exchange rate stability</u> (the foreign price of money, the exchange rate, is held fixed).

The uncovered interest rate parity condition (UIRPC) justifies the trilemma. According to UIRPC, in the absence of a risk premium, speculation makes the expected rate of appreciation E^e of the domestic currency against a foreign currency approximately equal to the difference between the foreign interest rate i^* and the domestic interest rate i. Speculation requires currencies to be bought and sold without constraints. Hence, by UIRPC, financial integration ensures that $E^e \approx \ i^* - i$. Also, exchange rate stability implies that no appreciation (nor depreciation) of the domestic currency should be expected; that is, $E^e = 0$. It follows from financial integration and exchange rate stability that $i^* \approx i$, so monetary policy cannot be independent. Thus, financial integration under fixed exchange rates force weaker economies to adopt the monetary policy of stronger economies.

Fleming, J. Marcus (1962): "Domestic financial policies under fixed and floating exchange rates", IMF Staff Papers 9, 369-379.

Mundell, Robert A. (1963): "Capital mobility and stabilization policy under fixed and flexible exchange rates", Canadian Journal of Economics and Political Science 29(4), 475-485.

12. The open economy trilemma actually a dilemma?

Hélène Rey

Hélène Rey (2015) finds evidence of the existence of a global financial cycle, characterized by correlated changes in asset prices, money flows and leverage levels. Specifically, "Global financial cycles are associated with surges and retrenchments in capital flows, booms and busts in asset prices and crises."

She also finds that, being the dollar the global reserve currency, the US monetary policy is one determinant of the global financial cycle: global capital flows are influenced by US monetary policy. In this context, regardless of the exchange rate regime, financial integration with the US limits severly the freedom of the domestic monetary policy.

She concludes that the global financial cycle reduces the open economy trilemma to a dilemma, that she names 'irreconcilable duo': "Independent monetary policies are possible if and only if the capital account is managed, directly or indirectly."

In other words, Rey's irreconcilable duo holds that one cannot have at the same time

- financial integration with the US and
- a monetary policy independent from the the US monetary policy.

Rey, Hélène (2015): "Dilemma not Trilemma: The global financial cycle and monetary policy independence", NBER Working Paper 21162.

https://cepr.org/voxeu/columns/dilemma-not-trilemma-global-financial-cycle-and-monetary-policy-independence

13. A policy quadrilemma

Joshua Aizenman

Aizenman (2013) extends the open economy trilemma to a policy quadrilemma by adding financial stability. Apparently, the quadrilemma is that measures to increase financial stability demand a smaller degree of fulfilment of the remaing policy goals (financial integration, exchange rate stability, monetary independence). Aizenman argues that financially integrated developing countries can easily be financially destabilized by capital flights and deleveraging crises: for these countries financial integration is also a source of financial turbulence. Such countries hoard foreign reserves as a self-insuring mechanism against volatile financial flows (and not just against volatile trade flows, which requires a smaller accumulation of reserves).

Aizenman interprets the acummulation of foreing reserves by countries increasing their financial integration as a way to 'relax the trilemma' in the short-run (achieve a sufficient level of exchange rate stability and monetary independence temporarily).

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

Michael D. Yates

14. A capitalist dilemma (Michael Yates, 2016)

Yates (2016, p. 47) claims that "<u>It is impossible to create a society that is both just and capitalist</u>". In a capitalist society, "losses are always socialized, and gains are always privatized".

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...

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

15. Dani Rodrik's central dilemma of the world economy

Rodrik (2007, p. 8) claims that 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).

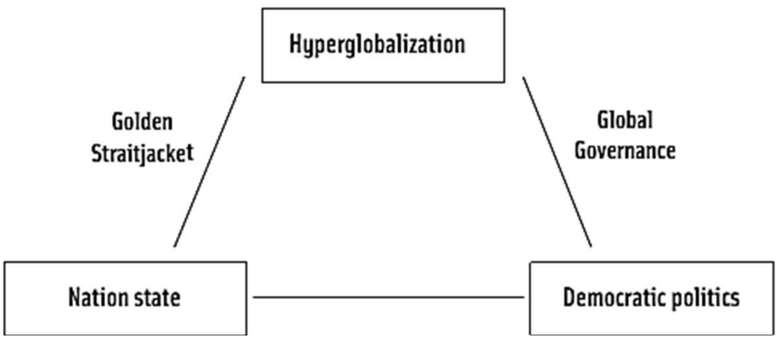
Rodrik, Dani (2007): *One economics, many recipes: Globalization, institutions, and economic growth*, Princeton University Press, Princeton, NJ.

16. Rodrik's trilemma (the political trilemma of the world economy)

Dani Rodrik

"I have an 'impossibility theorem' for the global economy that is like that. It says that <u>democracy, national sovereignty and global economic integration are mutually incompatible</u>." (Rodrik, 2007)

"The fundamental political trilemma of the world economy: we cannot have hyperglobalization, democracy, and national self-determination all at once." Rodrik (2011, p. 201)



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

A fully globalized economy forces a government 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 government must give priority to the agents of globalization. To restore domestic democratic legitimacy, globalization must then 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 (2007): "The inescapable trilemma of the world economy", https://rodrik.typepad.com/dani_rodriks_weblog/2007/06/the-inescapable.html .

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

17. Tommaso Padoa-Schioppa's inconsistent quartet (TPS, 'founding father' of the euro)

The open economy trilemma asserts a financial impossibility: under free international mobility of capital (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).

T. Padoa-Schioppa

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 members) cannot have

- free trade (trade integration),
- international capital mobility (financial integration),
- independent domestic monetary policies (monetary sovereignty) and
- fixed exchange rates (exchange rate stability).

The open economy trilemma is framed in a bilateral context: just two countries are involved. When more countries are involved, nothing prevents that each one solves the trilemma differently. For instance, with three countries, 1, 2 and 3 could become financially integrated, 1 set a fixed exchange with 2 (and give up monetary independence), 2 choose the domestic interest rate (and care nothing about exchange rate stability) and 3 establish a fixed exchange rate with 1.

What could lead some countries to opt for exchange rate stability? One reason is to facilitate trade flows with the country with whose currency establish the peg. In this case, it is natural for trade integration to be mutual: a country lowering trade barriers with another one would expect reciprocity.

The European Economic Community (EEC, the European Union antecedent) was born as a set of trading agreements. The road to a common market (and an economic union) means adopting eventually a full commercial integration. In that context, Padoa-Schioppa suggested the existence of an inconsistent quartet ('*quartetto inconciliabile*'): the impossibility for a group of countries of having at the same time

- financial integration of the group;
- commercial integration of the group (free trade, free mobility of goods);
- a fixed exchange rate regime within the group; and
- sovereign monetary policy for each member of the group.

At the begining of the 1990s, the EEC become the European Common Market: members adopted financial integration and free trade. Padoa-Schioppa's (1982) analysis pointed out that, in the presence of financial and commercial integration, all the Common Market members should make the same choice between exchange rate stability and monetary independence.

The justification run as follows. If exchange rate volatility is allowed, so some countries might take competitive advantage over the rest by manipulating the exchange rate, tensions would arise that could endanger the stabilty, and even the existence, of the common market agreement. As a result, exchange rate stability within the group appeared necessary for the viability of a common market project. By the open economy trilemma, all the members of the group had to abandon monetary sovereignty. Summing up, the European Common Market demanded a European Central Bank and, as the embodiment of fixed and irrevocable exchange rates, a new supranational currency: the euro.

The eurozone (the set of countries that have adopted the euro) involves a two-fold decision regarding the open economy trilemma and the quartet. On the one hand, with respect to themselves, eurozone members have chosen

- common market (free mobility of goods, services, capital, people, inputs);
- common currency (permanently fixed exchange rates: 1 EUR = 1936,27 ITL; 1 EUR = 166.386 ESP; 1 EUR = 1.95583 DEM; 1 EUR = 6,55957 FRF…); and
- supranational monetary policy determined by a central bank common to all the members.

Simultaneously, as a group of countries, the eurozone has chosen, against the rest of the world

- financial integration;
- floating exchange rates; and
- independent monetary policy (as dictated by the European Central Bank).

The eurozone have solved the monetary tensions and conflicts associated with a deeper financial integration by 'moving upward' (towards global governance); that is, by supranacionalizing money. The other approach (supported by extreme liberalism positions) involves privatizing money ('moving downward' by strengthening the role of the private sector in monetary management; private cryptocurrencies, such as bitcoin, illustrate this approach).

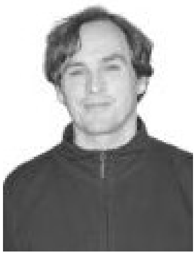
These two strategies are in line with the two basic ways of organizing economic activity: cooperation and competition. Padoa-Schioppa supported cooperation and supranationalism to address some economic policy issues (for instance, the adjustment of trade imbalances and the global stabilitzation of exchange rates). There are economic activities and prices too important at a global scale to be left 'in the hands of the market'[5]. At the same time, by contrast, he adopted the subsidiarity principle: to leave the execution of policies to the competent and most descentralized (and close to the citizen) authorities.

Padoa-Schioppa, T. (1982) "Capital Mobility: Why is the Treaty Not Implemented?" in T. Padoa-Schioppa (1994): *The Road to Monetary Union in Europe*, Oxford: Clarendon Press, pp. 26-43.

[5] In Padoa-Schioppa's words: "*When an unsustainable process 'comes to an end', variations in prices and quantities are of a magnitude and drama incomparably greater than one sees in the healthy conduct of economic life on a daily basis*". A 'Minsky moment' is an example of an unsustainable process that comes to an end.

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

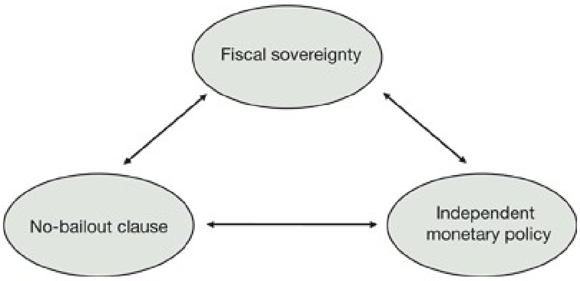
18. The trilemma of a monetary union (Beck and Prinz, 2012)




Hanno Beck ***Aloys Prinz***

"… the key elements of the new impossible trinity are as follows:

- The first element is fiscal sovereignty, i.e. the ability to choose the level of debt and the size of the current budget deficit exclusively on a national level (…)
- The second element is the independent monetary policy of a supranational central bank within the monetary union. As a consequence, countries cannot accommodate their fiscal policy with an adequate monetary policy. In a sense, monetary policy in a currency union is a one-size-fits-all approach (…)
- The third element is the commitment not to bail out heavily indebted member countries of the union (…)

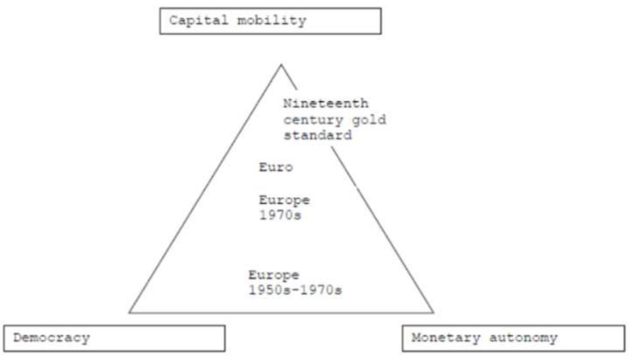


A no-bailout clause implies that there will be different interest rates paid on sovereign debt within the monetary union as a consequence of the risks these debts provide for the respective investors. As long as the bond markets assume that there will be no bailout whatsoever, they will demand different risk premiums according to country-specific risks."

"… if the regulatory framework of the monetary union contains a bailout clause, there will be a certain potential for moral hazard, i.e. countries accumulating large amounts of sovereign debt, expecting that they will be bailed out by the union. Such behaviour will sooner or later surely destroy the foundation of the monetary union. As a consequence, a bailout clause requires restrictions on national sovereignty with respect to the budget which, in turn, means a loss of fiscal sovereignty. On the other hand, as long as there is a no-bailout rule which is strictly enforced no matter what happens, national fiscal sovereignty can be guaranteed. Put differently, it is impossible to ensure national fiscal sovereignty without a strictly enforced no-bailout clause."

Beck, Hanno; Aloys Prinz (2012): "The trilemma of a monetary union", https://www.intereconomics.eu/contents/year/2012/number/1/article/the-trilemma-of-a-monetary-union-another-impossible-trinity.html

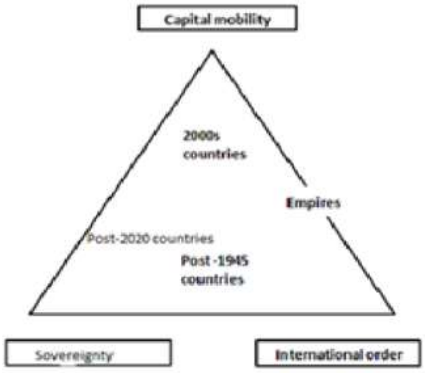
19. The political economy trilemma (H. James and M. Bordo, 2015)



"After a period of financial opening, the consequent development of financial imbalances may strain the political system. States (whether they are autocracies or democracies) initially like the benefits that flow from open capital markets. Democracies, in which governments are responsive to short term demands of voters, are also likely to want to set monetary policy independently. They need to work out a trade-off between present monetary autonomy and the ability to attract inflows. Thus the third trilemma may be formulated as the <u>incompatibility of capital flows, independent monetary policy, and democracy</u>. It poses a severe problem for people who believe that a major area of policy in a modern state should be capable of being decided by a democratic process."

"… capital flows, democracy, and a stable international political order cannot be reconciled with each other simultaneously."

20. The international relations trilemma (H. James and M. Bordo, 2015)

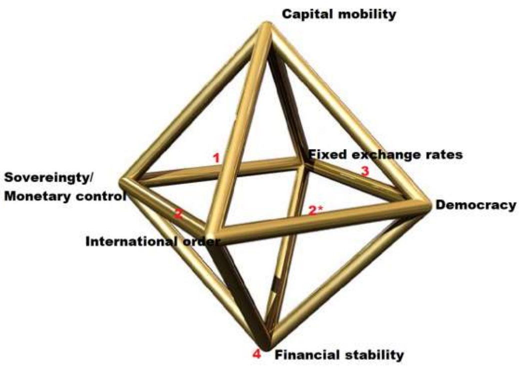


"… in democratic societies the redistributory impulse generated by the political process may –espe-cially when the limits of domestic redistribution become apparent– translate into a wish to redistribute the resources of other countries. The burden of an unpleasant adjustment could conceivably be shifted onto other people –who are outside the national boundary and thus outside the political process. It is this impulse (Let the others pay!) that is restrained by treaties and security commitments. An alliance system or closer political union (as in modern Europe) helps to restrain destabilising democratic impulses, in which one country's democratic choices are confronting the voting preferences of other democracies."

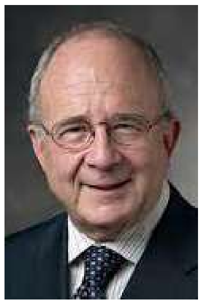
"… capital flows, democracy, and a stable international political order cannot be reconciled with each other simultaneously."

James, Harold; Michael Bordo (2015): "Capital flows and domestic and international order: Trilemmas from macroeconomics to political economy and international relations"
https://cepr.org/voxeu/columns/capital-flows-and-domestic-and-international-order-trilemmas-macroeconomics-political
https://www.weforum.org/agenda/2015/04/how-to-understand-policy-trilemmas/

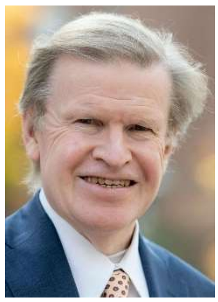
21. Financial stability octahedron (M. Bordo and H. James, 2022)



"<u>Financial stability and free capital movements thus stand in a permanent tension, that produces many trilemmas</u>, that affect both international political order and the chances of a liberal democratic domestic political order. We can thus think of these two as poles in a complex system of trade-offs or multiple trilemmas that can be captured figuratively by, or folded into, a polyhedron which offers a three dimensional policy space in its interior, and includes a wide variety of possible trilemmas."



Michael Bordo



Harold James

Bordo, Michael; Harold James (2022): "Trapped in the Trilemma: When security trumps economics", Hoover Institution, Economics Working Papers.

22. 'The paradox of our times' (David Held, 2010)

David Held (2010, p. 4) asserts that '<u>the paradox of our times' is that the global core problems</u> (associated with sharing the planet, sustaining societies and establishing global regulations) <u>increasingly trascend political borders, but the tools to handle these issues are inadequate or insufficient</u> (problems addressed in an ad hoc manner, with international/global institutions lacking coordination and accountability).

The paradox expresses a problem of global governance: <u>global problems cannot be solved at the national level or by nations acting alone</u>. 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.

23. The blockchain trilemma (Vitalik Buterin)

<u>A feature making the blockchain structure appealing is decentralization</u>: as there is no centralized entity controlling or regulating, the structure depends on the decisions of its users. To remain appealing, the structure must accommodate new users without sacrificing its performance. That is, the network should be designed to allow mass adoption. <u>Scalability is a network's ability to expand in a stable manner</u>.

<u>The blockchain trilemma claims that the more decentralized and scalable a blockchain, the less secure it is</u> (the more manipulable it can be). Security could be associated with centralization: the more influence an agent has in a network, the less secure it is, because most likely the agent will explote its influence to its own advantage, regardless on the effect on the the network stability.

Therefore, the blockchain trilemma refers to the tension between three concerns:

- decentralization (no central authority)
- scalability (mass adoption, network expansion)
- security (the network operates as expected, no one can break the rules at the expense of others).

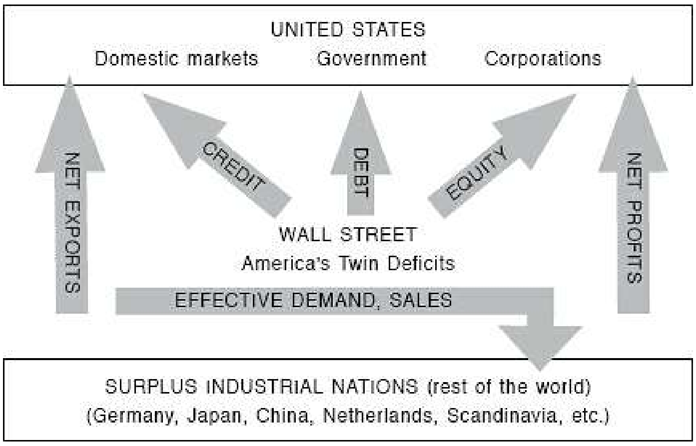
For instance, the blockchain cryptocurrency Bitcoin is decentralized (nodes dispersed worlwide) and secure (no individual or collective controls the network of nodes), yet its scalability is limited (since the number of transactions that can be processed per time unit is limited). This means that the network is not immune to congestion. Is the solution to the trilemma (as for Bitcoin) to add more nodes with new participants? That every participant should become a node for transactions?

https://www.cryptowisser.com/fixing-quadrilemma-defi-will-live-up-to-its-promise/

https://phemex.com/academy/what-is-the-blockchain-trilemma

https://www.zeeve.io/blog/shardeum-solving-the-blockchain-trilemma/

24. Varoufakis's (2015) global minotaur hypothesis



Yannis Varoufakis

"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).

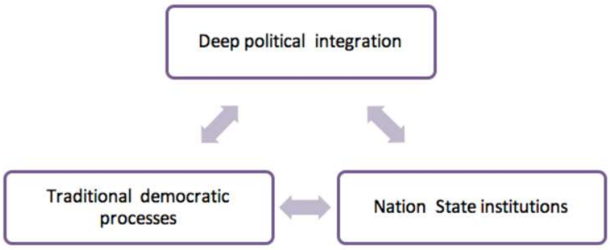
It also goes hand in hand with a radical misunderstanding of what kept the eurozone healthy and Germany in surplus prior to 2008: that is, the Global Minotaur whose demand-generation antics were for decades allowing countries like Germany and the Netherlands to remain net exporters of capital and consumer 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.

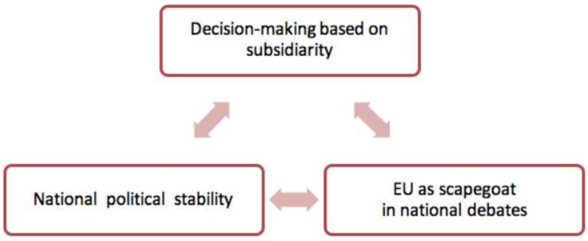
25. Europe's inconsistent political trinities

"A first inconsistent trinity appears when decisions to be taken at the European level rely on democratic checks and balances based only on national institutions."



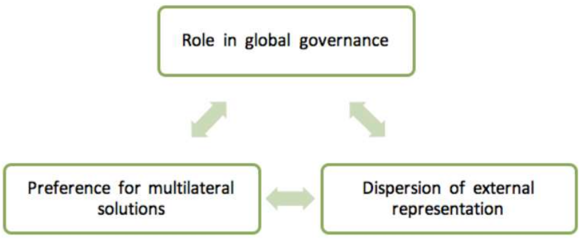
First inconsistent trinity: Political integration

"... the institutional relations setting needs to overcome an inconsistent trinity, where taking the EU as a general scapegoat for the consequences of the crisis prevents the achievement of both domestic political stability and the adequate level of subsidiarity required to deliver EU-based solutions to EU-relevant problems."



Second inconsistent trinity: Institutional relations

"... it is not possible to achieve an important role in global governance if representation in multilateral forums remains that of member states alone. In other words, fragmented external representation leads to a lesser weight for the European message to the world, or it weakens the effectiveness of the multilateral global governance framework via a tangle of state-to-state bilateral agreements. Only a single external voice, at least at the Eurozone level (...) can be conducive to a greater influence in global decision-making."

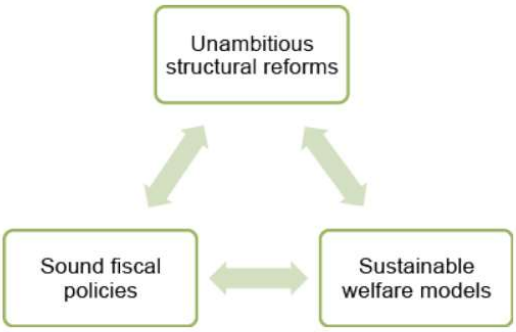


Third inconsistent trinity: Global governance

Muriel Lacoue-Labarthe, Marco Buti (2016): "Europe's incompatible political trinities"
https://cepr.org/voxeu/columns/europes-incompatible-political-trinities

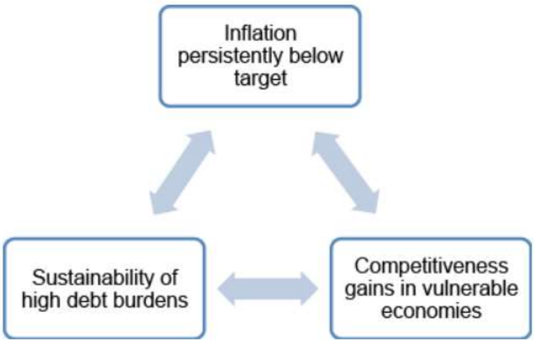
26. Inconsistencies in Europe's EMU

"A first inconsistent trinity, therefore, exists between conducting sound fiscal policies and achieving sustainable welfare systems while pursuing unambitious structural reforms that will keep EU economies locked in a 'stagnation trap'."



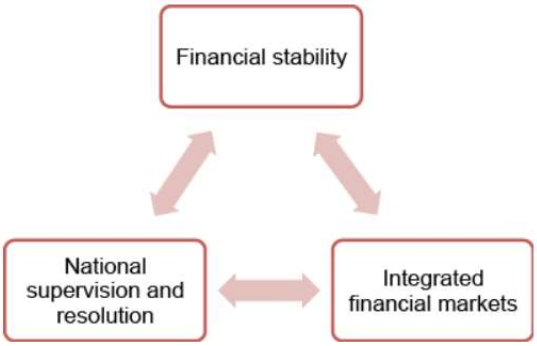
First inconsistent trinity: Political and social viability

"It is not possible to have fiscal discipline and at the same time maintain the European welfare model on a sustainable basis without structural reforms that are able to deliver job creation and generate growth in order to finance those welfare models. At the same time, if fiscal discipline is to be maintained without embarking on far-reaching structural reforms to increase growth, this will only come at the expense of dismantling, or at least gradually eroding the European welfare model."



Second inconsistent trinity: Adjustment objectives in the Eurozone

"This conflict of policy objectives and economic realities can be represented as a second inconsistent trinity – that vulnerable countries cannot simultaneously reduce their high debt burdens and gain competitiveness in an environment of persistently low Eurozone average inflation."



Third inconsistent trinity: Restoring financial integration and stability

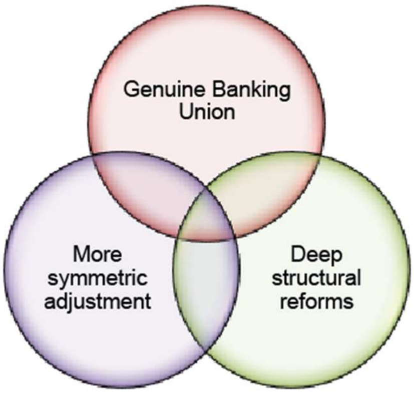
"This trilemma suggests that the aims of achieving financial stability within an integrated, competitive, and dynamic single financial market can only be satisfied by allowing for greater mutual responsibility for banking sector problems. This provides an intellectual underpinning to a genuine banking union, which has been developed and implemented since 2012. While several initiatives have been taken on the regulatory front, completing a full banking union with a mutual backstop remains a clear priority."

Pisani-Ferry, J (2012),"The euro Crisis and the new Impossible Trinity", *Moneda y Credito* 234.

Marco Buti (2014): "A consistent trinity for the Eurozone"

https://cepr.org/voxeu/columns/consistent-trinity-eurozone

27. A consistent trinity for Europe's EMU



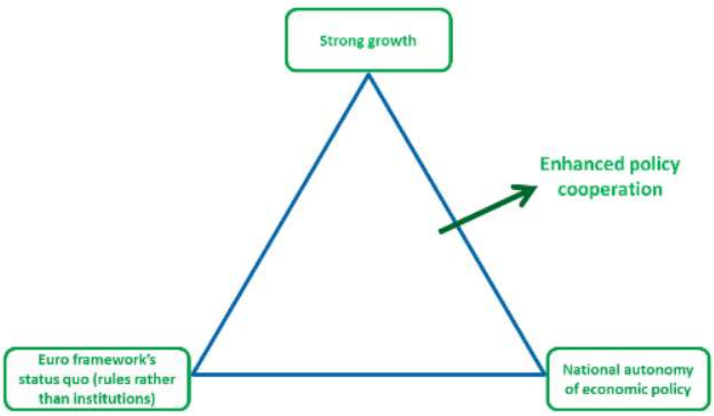
"Consistent trinity

- Slow growth would be tackled by bold structural reforms both in the core and the periphery, which in turn would allow for maintaining sustainable welfare systems.
- Appropriate structural reforms would also increase domestic demand in the core, which would in turn have a positive effect on internal demand in vulnerable countries through exports, and would facilitate rebalancing.
- Higher demand would help bringing overall Eurozone inflation closer to its target and, hence, provide room for higher inflation differentials between the core and the periphery, giving margin for competitive gains in vulnerable countries, and at the same time alleviating debt sustainability problems.
- If coupled with a full and effective banking union, financial fragmentation would recede, and credit conditions could support growth and reforms through spurring investment, while important fiscal and financial risks would be reduced by severing sovereign-bank links."

Marco Buti (2014): "A consistent trinity for the Eurozone"

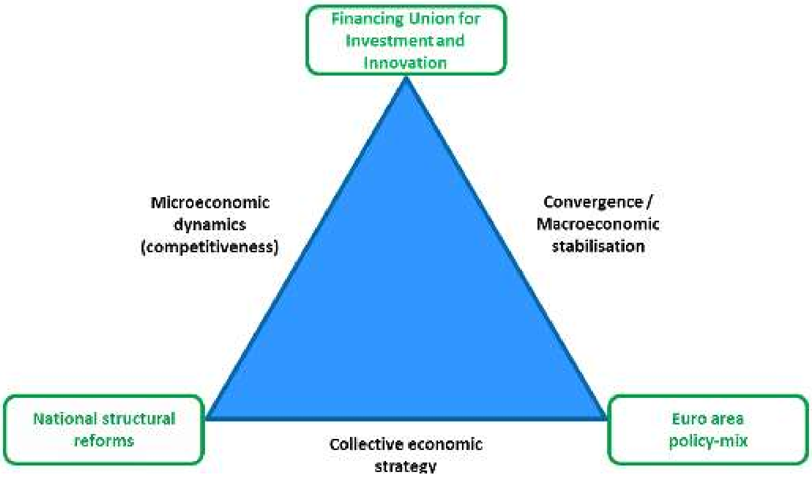
https://cepr.org/voxeu/columns/consistent-trinity-eurozone

28. Europe's growth triangle



"… a new trilemma has emerged. It now seems impossible for euro area countries to achieve their full growth potential - the first point of the triangle -, if they wish at the same time to achieve the two other points of the triangle: on the one hand, keeping the autonomy of their economic policies at the national level; on the other hand, keeping the 'Euro framework' of coordination unchanged, that is to say maintaining the status quo, with a <u>cooperation between countries based only on rules without institutions and without a common strategy</u>. We have to drop one of the points of this triangle in order to achieve the other two."

“We have to get Economic Union moving forward again, thanks to what I call the ‘**growth triangle**’. The peculiarity of this triangle is that it is not an incompatibility triangle but a compatibility triangle.”



“**The first point** of my growth triangle is: **national structural reforms.** They are a prerequisite for each country to regain credibility in Europe and for unleashing our collective economic growth potential.”

“The success of **national** reforms would be amplified if combined with two **European** reforms - the two other points of my triangle. **The first one is microeconomic: the creation of a Financing Union for Investment and Innovation** (...) An obvious way to boost growth is therefore to better steer our abundant savings towards the financing of investment and innovation across borders (...) **The second reform at the European level is a macroeconomic ambition: a better euro area policy-mix**. This would help offset the short-term pain of national structural reforms before achieving the long-term gains. Let me be crystal-clear: we should not abandon the **existing rules** that apply to each Member State, including the Stability and Growth Pact: rules are necessary, but they are not sufficient. What we currently lack is a common direction.”

François Villeroy de Galhau (2017): “The future of the euro area - from the ‘impossible trinity’ to the ‘growth triangle’”

https://www.bis.org/review/r170612a.htm

29. Attributes of an international reserve currency (Barry Eichengreen)

A currency must possess three attributes to be international adopted in commercial and financial international transactions and held as reserve by central banks and governments.

- Scale: the country that issues the currency must conduct a sufficiently large amount of transactions with the rest of the world.
- Stability: the currency’s users must believe that the value of the currency is sufficiently stable for the currency to perform well the functions of medium of exchange and deposit of value.
- Liquidity: financial assets denominated in the currency are available in sufficient quantities to be sold and bought, without the currency’s value being significantly affected.

The country whose currency becomes internacionalized must develop an economy which is significantly open and integrated with the rest of the world (open capital account), a reputation for financial (economic, political) stability and liquid markets in dollar-denominated assets.

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

Michael Hudson

- "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.

30. A paradox of dominance?

If the global contest for dominance is a zero-sum game, then the resources used by the rising powers are no longer available to the lead states to maintain or expand their dominance. In fact, the economic system created by the dominant powers is used by the challengers to rise: when the profit opportunities become scarce in the lead economies, it becomes an attractive option to invest abroad and that helps less developed economies to develop and close the gap with the richer economies. As it is cheaper to produce in poorer economies, these economies could develop easier and faster by selling their production in the leading economies. Hence, the initial leadership of some economies is accompanied by convergence of the rest of economies.

> "The paradox of power for the USA is therefore that the very economic system that has propelled it on to the world stage also contains within it the potential seeds of its own destruction." Glenn (2016, p. 2)

Glenn, John G. (2016): *China's challenge to US supremacy: Economic superpower versus rising star*, Palgrave Macmillan, London.

31. 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.

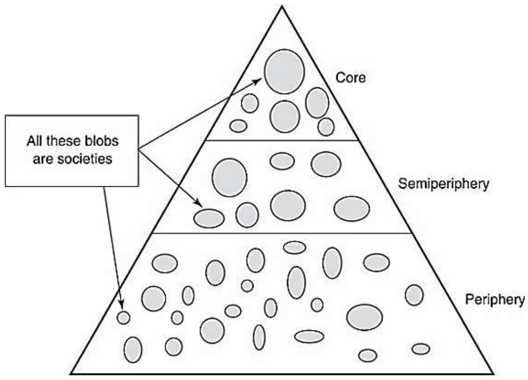
32. How capitalism ends (Alan Nasser, 2018, pp. 225-226)

"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.

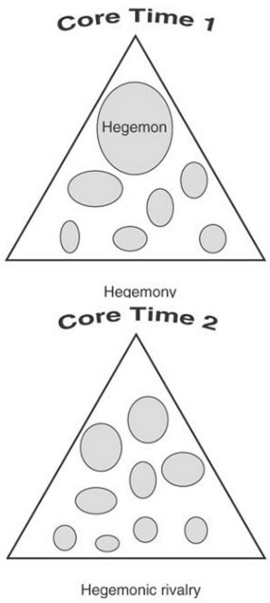
33. The modern world-system: core, periphery and semiperiphery

"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.

34. 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."

35. 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."

36. 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."

37. 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."

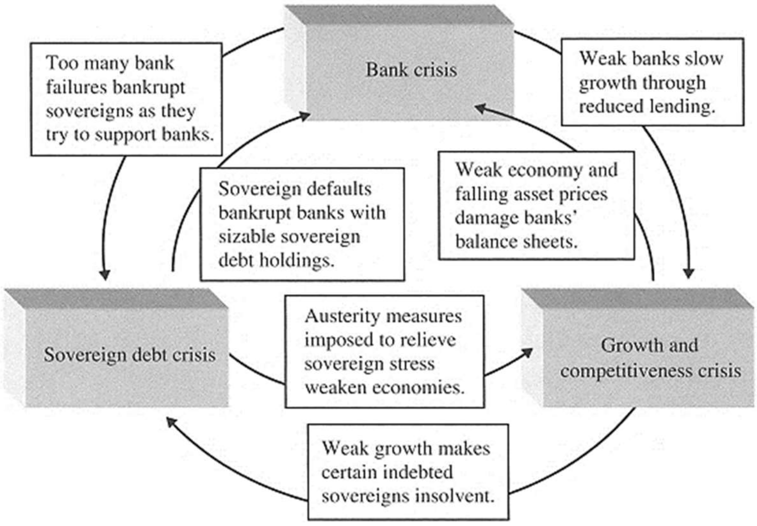
"… if you are tempted therefore to say that (…) Moneyland is simply the inevitable result of globalisation, and one that we must accept, please consider what that means. Moneyland is a country that subverts traditional nation states: it is everywhere and nowhere, somewhere 'in the cloud', a new development – 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.

38. The euro's three crises

In 2012 the eurozone faced three interdependent crises that challenged the euro's viability.

- Banks had liquidity problems (bank crisis).
- Governments had funding problems, with yields on government bonds sky-rocketing (sovereign debt crisis).
- Economic activity slowed down (growth crisis).



The euro implied that severe economic problems can no longer be contained within the countries initially experiencing the problems, which (if not solved quickly) easily cross national borders.

Shambaugh, Jay C. (2012): "The euro's three crises", Brookings Papers on Economic Activity, Spring, 157-211.

39. Achievements and weaknesses of the European monetary union

Trichet (2013) argues that European prosperity and influence depends on setting the correct path of European integration, both economic and political. Europe's EMU is itself viewed as a historically unique achievement: "a 'society of states' of a completely new type." He lists successes of the EMU: price stability and stable expectations on the value of the euro (future price stability), with these results attained in the presence of important global oil and commodity shocks and not at the expense of sacrificing employment creation. He also lists several EMU economic governance weaknesses. In particular:

- "the Stability and Growth Pact designed to ensure sound fiscal policies in the Euro area has not been correctly implemented."
- "at the start, the governance of the Euro area did not comprehend any serious monitoring and surveillance of competitiveness indicators, of nominal evolutions of prices and costs in any particular nation and of national external imbalances within the Euro area."
- The lack of an effective banking union (given the high correlation between the creditworthiness of a state and its banks).
- Neglect in the implementation of crisis management tools when the euro was created.
- Market integration (particularly, in services) has not been fully achieved.
- "The slow and hesitant implementation of the structural reforms foreseen in the Lisbon agenda and in the 2020 program."

Trichet, Jean-Claude (2013): "International policy coordination in the Euro area: Toward an economic and fiscal federation by exception," Journal of Policy Modeling 35, 473-481.

40. Trichet's (2013) economic and fiscal federation proposal

The current system (the Macroeconomic Imbalance Procedure) is one of 'fines' (a percentage of GDP) for countries whose improper conduct (materialized in excessive macroeconomic imbalances) puts at risk the stability of the EMU. Since such fines have not proved effective to deter countries in undesirable behaviour, Trichet suggests replacing this system with a new decision making process he calls 'the activation of an economic and fiscal federation by exception', in which fiscal sovereignty can be limited in exceptional cases by a majority vote of the members of the European Parliament from Euro area states.

- "The scope of interventions and the measures taken by the federal institutions would so rely, even in the much longer term, on the principle 'as little as possible in normal times, but as much as necessary in exceptional times'." It appears that the ECB applied this principle during the Euro area debt crisis (July 2012: Draghi's 'whatever it takes' speech).
- Trichet also proposes the setting up of a Ministry of Finance of the Euro area. "This ministry would have the responsibility of the activation of the economic and fiscal federation when and where necessary. It would be responsible for the handling of the crisis management tools like the ESM [European Stability Mechanism]. It would also be responsible for the handling of the banking union, within the limits of the executive branch responsibility. And it would represent the Euro area in international institutions and informal groupings."

Trichet, Jean-Claude (2011): "Tomorrow and the day after tomorrow: A vision of Europe", Humboldt University, Berlin.