Sistema monetari internacional i unions monetàries

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

1. Core, periphery, semi-periphery

"World-systems theorists hold that the division of labor in the capitalist world economy divides production into core-like products and periphery-like products, and states into statuses of core, periphery, and semi-periphery. The core specializes in the production of the most advanced goods, which involves the use of the most sophisticated technologies and highly mechanized methods of production (capital-intensive production). The core states are the most economically and politically dominant, militarily powerful, and administratively well organized in the world-system.

At the other extreme, the periphery specializes in the production and export of raw materials and labor-intensive goods. The peripheral states are militarily and organizationally weak. Between these two extremes are those states in the semiperiphery. They have some economic activities similar to those of the core (core-like production) and some more typical of the periphery (periphery-like production). Some world-systems theorists suggest that the semi-peripheral states play a critical role as 'buffer zones' or 'intermediaries' between the core and the periphery.

World-systems theorists view the nature of the economic relationship between core and periphery in some aspects similarly to dependency theory; that is, the trading relationship is fundamentally exploitative."

2. 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."

3. '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."

4. 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."

5. 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."

6. 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."

7. 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."

8. 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)."

9. 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.

10. 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."

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

11. Neoliberalism or governing through markets

Neo-liberalism is the doctrine that economic policy is reduced to a basic strategy of 'leaving it to the market' and eliminating any public intervention in markets. The last two or three decades has

witnessed a shift in economic policy towards neoliberalism. The shifts in economic policy along the neoliberal lines include:

- discarding fiscal policy in favour of monetary policy;
- policy goals no longer concentrating on employment and growth but on inflation and price stability;
- ascribing the causes of unemployment to the operation of the labour market and, in particular, its "inflexibility";
- unemployment can only be solved through labour market 'reforms' and remove their 'rigidities,' associated with trade union power, long-term employment contracts, and minimum wage regulations;
- the solution to the unemployment problem does not stem from demand-side policies nor regional and industrial policies designed to tackle structural unemployment;
- the liberalization and deregulation of markets (particularly, financial markets) and the removal of capital controls that regulate the flow of capital between countries.

Arestis, Philip; Malcolm Sawyer (2004): *Neo-liberal economic policy*, p. 1

12. The Washington Consensus (John Williamson, 1990)

The Washington Consensus is a set of economic policy recommendations regarding development strategies promoted by the IMF, the World Bank and the US Treasury (all Washington-based institutions). Originally, it was defined by three broad premises: market economy, openness and macroeconomic discipline. The ten original suggested reforms were:

- Fiscal discipline. Reduce large public deficits, which were persumed to lead to balance of payments crises and high inflation.
- Re-ordering public expenditure priorities, towards pro-growth and pro-poor expenditures.
- Tax reform: combine a broad tax base with moderate marginal tax rates.
- Liberalization of interest rates.
- A competitive exchange rate: adoption of an intermediate exchange rate regime (against the two corner doctrine that a country must either fix the exchange rate or let it float freely).
- Trade liberalization.
- Liberalization of inward foreign direct investment.
- Privatization, but paying special attention to how privatization is conducted.
- Deregulation, focusing on easing barriers to market entry and exit.
- Legal security for property rights: ensure access to property rights at acceptable cost.

Serra, Narcís; Joseph E. Stiglitz; eds. (2008): *The Washington Consensus reconsidered: Towards a new global governance*, Oxford University Press, Oxford, UK.

13. The Beijing Consensus (Joshua Cooper Ramo, 2004)

The Beijing Consensus (the China model or the Chinese Economic Model) expresses a political economy view opposed to the ('market-friendly') Washington Consensus. The Beijing Consensus describes the features of the economic development model (of political and economic policies) that China is presumed to have followed in the last decades to develop its economy. The Beijing Consensus suggests new rules for a developing country to achieve fast, stable and sustainable economic growth.

- Ramo's original core prescriptions were: (i) a willingness to innovate; (ii) equitable growth and sustainable development; and (iii) a strong belief in a nation's self-determination.
- The China model is often viewed as a resizing of the 'Singapore model' (the long-term one-party developmental state), a developmental model combining state capitalism (specifically, foreign investments with government-linked corporations) with one party-rule (the People's Action Party).

Li, Jun; Liming Wang (2014): *China's economic dynamics: A Beijing Consensus in the making?*, Routledge, London and New York

14. The Post-Washington Consensus (Joseph Stiglitz, 1998)

Joseph Stiglitz claimed that 'making markets work" required more than deregulation policies and low inflation: a robust financial system, to whose creation the government contributes greatly, is necessary for markets to deliver efficient outcomes (as was automatically pressumed in the Washington consensus). In Ha-Joon Chang's opinion, the crucial feature of the Post-Washington Consensus is replacing getting-the-prices-right policies with getting-the-institutions-right policies.

15. Fundamental political dilemma (Barry Weingast).

"A government strong enough to protect property rights and enforce contracts is also strong enough to confiscate the wealth of its citizens."

Weingast, Barry R. (1995): "The economic role of political institutions: Market-preserving federalism and economic development", Journal of Law, Economics & Organization 11(1), 1-31.

Hanson, Jonathan K. (2014): "Forging then taming Leviathan: State capacity, constraints on rulers, and development", International Studies Quarterly Volume 58(2), 380-392.

16. Excessive debt

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.

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

17. La hipòtesi d'inestabilitat financera d'en Hyman Minsky (1919-1996)

La hipòtesi d'inestabilitat financera és una teoria del cicle econòmic basada en la idea que l'estabilitat del sector financer provoca eventualment la seva inestabilitat.

La major part de les transaccions financeres són apostes sobre el valor dels actius financers: es compren actius finances amb l'expectativa de revendre'ls a un preu superior. Una economia que creix fa aparèixer el sector financer com a estable, atès que en una economia en creixement és més fàcil pagar els deutes (ja que l'expansió de l'economia va acompanyada d'una inflació dels preus dels actius financers) i els prestadors consideren menys arriscat prestar (els prestataris compren amb el préstec un actiu que hom expecta que incrementi de valor).

Com més s'allarga el creixement de l'economia més s'instal·la la creença que el sector financer és estable: la inflació de preus d'actius que acompanya una economia en expansió valida les apostes dels inversors financers. En aquest context, no continuar apostant que la inflació de preus d'actius continuarà es percep com una oportunitat perduda d'obtenir fàcilment un guany. Aquesta percepció provoca el relaxament de les regles de prudència de l'endeutament. Com a resultat, més deute s'acumula i la inflació de preus d'actius continua. Tard o d'hora, el volum de deute acumulat es considerarà excessiu, els prestadors es tornaran menys generosos a l'hora de concedir préstecs i això posarà fre a la inflació de preus d'actius. Els últims que han entrat en la roda d'apostes no podran vendre els actius a un preu superior al de compra, impagaran el deute i aleshores s'evidencia l'inici d'una crisi financera.

Minsky classifica l'endeutament financer en tres tipus. L'endeutament de cobertura (*hedge finance*) finança operacions que generen fluxos d'ingressos suficients per a cancel·lar el deute completament (l'import manllevat més els interessos i despeses associades). La sostenibilitat de l'endeutament de cobertura depèn del creixement del sector real (més producció de béns i més ocupació).

Segons Minsky, el creixement de l'economia fa que l'endeutament de cobertura sigui desplaçat per l'endeutament especulatiu (*speculative finance*), en part perquè l'expansió de l'economia incrementa la disponibilitat de crèdit. En aquest segon tipus, els fluxos d'ingressos de les operacions finançades amb l'endeutament són insuficients per a saldar tot el deute, però almenys permeten el pagament regular dels interessos. La sostenibilitat de l'endeutament especulatiu depèn del creixement del sector financer (més producció de béns i més ocupació).

En la interpretació de Minsky, l'endeutament especulatiu tendeix a fer-se més vulnerable. Si el sector real continua creixent, eventualment sorgiran pressions inflacionistes que provocaran que el Banc Central apugi la taxa d'interès. Taxes d'interès superiors comporten preus d'actius financers inferiors. D'altra banda, el creixement del sector financer necessitarà d'un flux creixent de crèdit.

Eventualment s'assolirà un volum d'endeutament que algun prestador considerarà excessiu. Només que la taxa de creixement del crèdit es moderi podria ser suficient com per a què suficients prestadors considerin que s'ha assolit el límit de la inflació de preus d'actius i retallin crèdit, la qual cosa contribueix a moderar més el creixement del crèdit. La vulnerabilitat de l'endeutament especulatiu deriva de la necessitat de refinançar el deute: l'enduriment de les condicions del refinançament o la reducció de l'oferta de refinançament dificulta o encareix el refinançament.

El tercer tipus d'endeutament és l'endeutament de Ponzi (*Ponzi finance*), on el deute només es pot pagar amb més deute: fins i tot per a pagar els interessos cal obtenir més préstecs. Minsky postula que, amb el temps, l'endeutament de Ponzi tendeix a fer-se dominant, desplaçant els altres dos tipus d'endeutament.

En aquesta situació el sector financer esdevé progressivament més procliu a una crisi, que s'origina en el moment que els deutors de Ponzi no aconsegueixen refinançar el deute (molts motius, o simplement la por, poden portar als prestadors a tallar l'aixeta del crèdit als deutors de Ponzi). La crisi es generalitza (i es fa evident per a tothom) quan la resta de manllevadors consideren excessiu (o insostenible) els seus nivells d'endeutament i passen a prioritzar la seva reducció (retallant consum i inversió, venent actius i, per descomptat, aturant l'especulació financera).

L'expressió 'Moment de Minsky' (*Minsky moment*) fa referència al moment en què es generalitza la percepció que el volum d'endeutament és excessiu (que el sobreendeutament és una realitat que cal adreçar: de sobte te n'adones que t'ha desaparegut el terra i no tens res que et sustenti). La manera més immediata de reduir l'endeutament és liquidar inversions financeres: vendes massives d'actius financeres que produeixen una crisi financera (comunament, un crack de la borsa).

La hipòtesi d'inestabilitat financera diu: 'al llarg de períodes de prosperity perllongada, l'economia passa de caracteritzar-se per relacions financeres que fan estable el sector financer a caracteritzar-se per relacions financeres que el fan inestable' (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.

18. Minsky moment

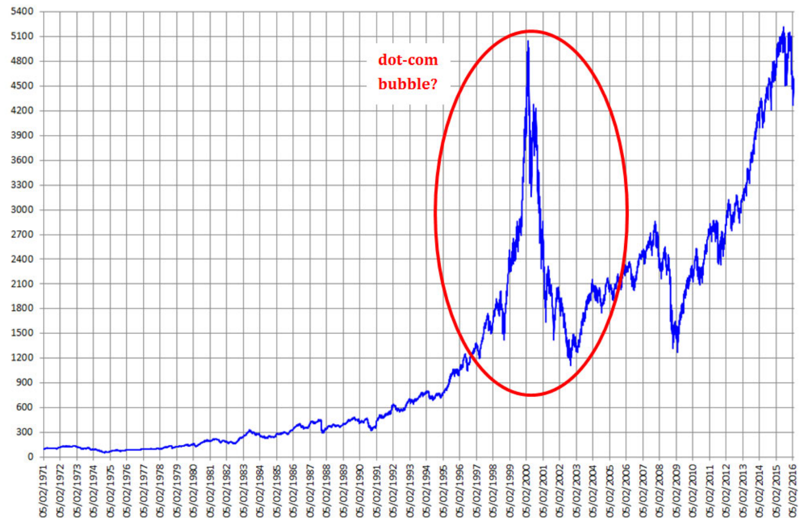
Named after the American economist Hyman Minsky (1919-1996), a Minsky moment is a situation where asset prices suffer a sudden and precipitous collapse as a result of an excessive speculation, financed by borrowed money, that forces speculators to start a major sell-off to pay back the loans.

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

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

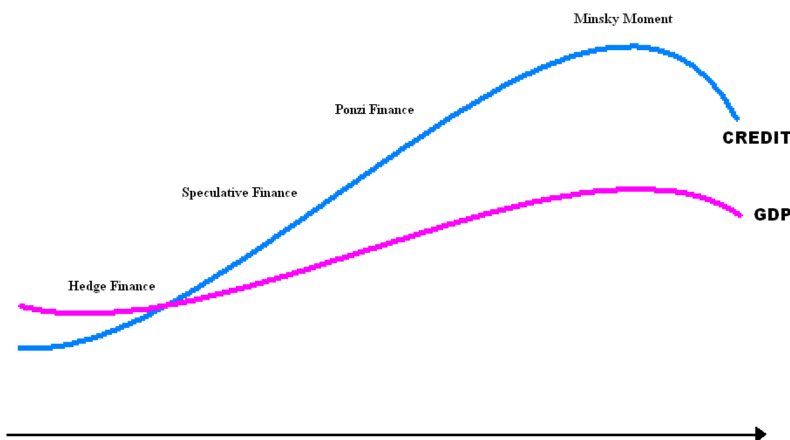
http://www.disneycharacters.net/data/media/7/Wile_E_Coyote_Fall_Cartoon_Image.jpg

"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

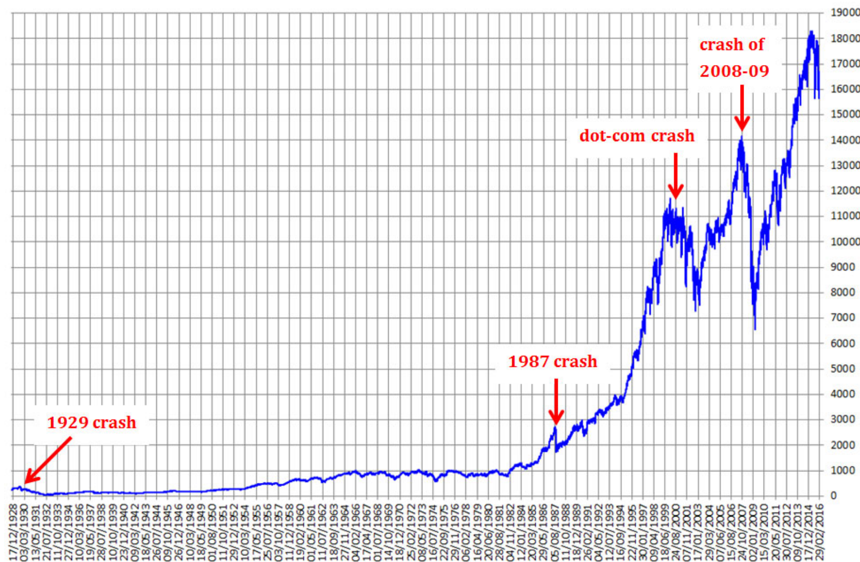
"A Minsky moment is a sudden major collapse of asset values which is part of the credit cycle or business cycle. Such moments occur because long periods of prosperity and increasing value of investments lead to increasing speculation using borrowed money. The spiraling debt incurred in financing speculative 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."

19. 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.



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

20. 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

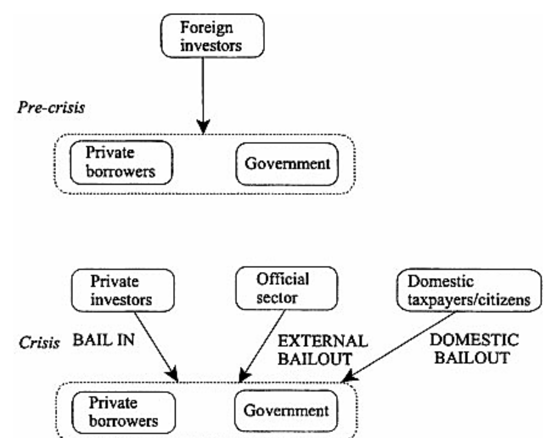
adherence to universal principles for securities market regulation designed by the International Organization of Securities Commission (IOSCO) and those for accounting designed by the International Accounting Standards Committee (IASC), would reassure foreign investors and help prevent crises.

- 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."



21. 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 UP.

22. 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.

23. Global power elites and the transnational capitalist class (Peter Phillips, 2018)

"[In 1956, C. Wright] Mills described the power elite as those 'who decide whatever is decided' of major consequence. Sixty-two years later, power elites have globalized and built institutions that facilitate the preservation and protection of capital investments everywhere in the world."

"The Global Power Elite function as a nongovernmental network of similarly educated wealthy people with common interests of managing, facilitating, and protecting concentrated global wealth and insuring the continued growth of capital. Global Power Elites influence and use international institutions controlled by governmental authorities—namely, the World Bank, International Monetary Fund (IMF), NATO, World Trade Organization (WTO), G7, G20, and many others. These world governmental institutions receive instructions and recommendations for policy determinations from networks of nongovernmental Global Power Elite organizations and associations."

"We name some 389 individuals in this book as the core of the policy planning nongovernmental networks that manage, facilitate, and protect the continued concentration of global capital. The Global Power Elites are the activist core of the Transnational Capitalist Class—1 percent of the world's wealthy people—who serve the uniting function of providing ideological justifications for their shared interests and establishing the parameters of needed actions for implementation by transnational governmental organizations."

"This concentration of protected wealth leads to a crisis of humanity, whereby poverty, war, starvation, mass alienation, media propaganda, and environmental devastation are reaching a species-level threat. We realize that humankind is in danger of possible extinction and recognize that the Global Power Elites are probably the only ones capable of correcting this condition without major civil unrest, war, and chaos. This book is an effort to bring awareness of the importance of systemic change and redistribution of wealth, to readers as well as to the Global Power Elites themselves, in the hope that they can begin the process of saving humanity."

Phillips, Peter (2018): *Giants. The global power elite*, Seven Stories Press, New York.

24. 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.

25. 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.

26. 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.

27. 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)

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

Neo-liberalism is the doctrine that economic policy is reduced to a basic strategy of 'leaving it to the market' and eliminating any public intervention in markets. The last decades has witnessed a shift

in economic policy towards neoliberalism. The shifts in economic policy along the neoliberal lines include:

- 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.

29. The Lucas paradox de Lucas (Robert Lucas, Jr. (1937-))

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.

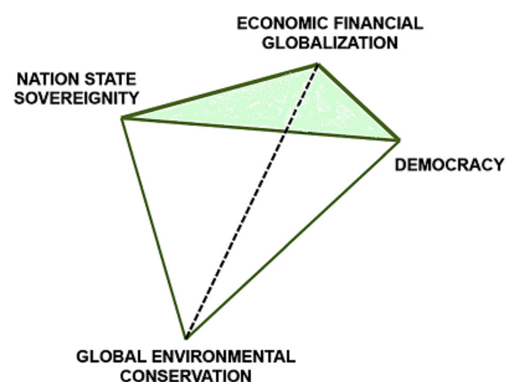
- Investors may lack relevant information: poorer economies are typically less transparent than richer ones.
- There is also exchange rate risk, that is, that the currency of the poor economy receiving investment will fall with respect to the currency of the domestic economy of the investor. If this 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

30. Quadrilemma in climate change international negotiations

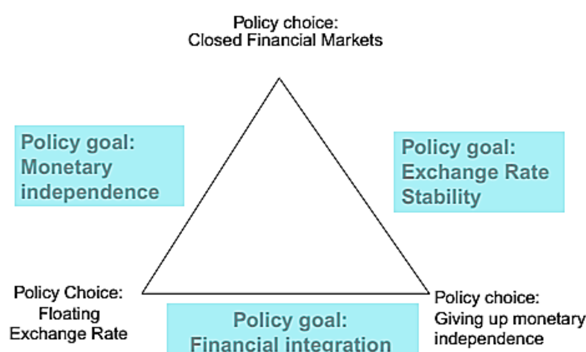
"Current global climate change negotiations face some contradictions that are not always addressed as they are considered politically incorrect. These include, first, the decoupling of commitments for planetary environmental policies with the actual national strategies. A relevant example is the Bolivian 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

31. 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

32. Characteristics of the Bretton Woods system

"It took close to 15 years to get the Bretton Woods system fully operating. As it evolved into a gold dollar standard, the three big problems of the interwar gold exchange standard re-emerged: adjustment, confidence, and liquidity problems.

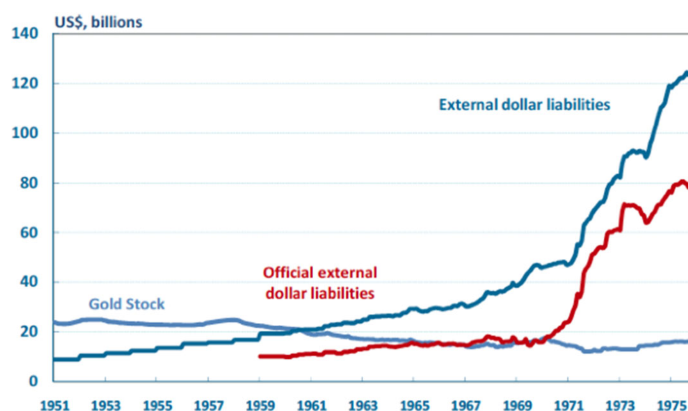
The *adjustment* problem in Bretton Woods reflected downward rigidity in wages and prices which prevented the normal price adjustment of the gold standard price specie flow mechanism to operate. Consequently, payment deficits would be associated with rising unemployment and recessions. This was the problem faced by the UK, which alternated between expansionary monetary and fiscal policy, and then in the face of a currency crisis, austerity – a policy referred to as 'stop-go'. For countries in surplus, inflationary pressure would ensure, which they would try to block by sterilisation and capital controls.

A second aspect of the adjustment problem was asymmetric adjustment between the US and the rest of the world. In the pegged exchange rate system, the US served as central reserve country and did not have to adjust to its balance of payments deficit."

"The US monetary authorities began to worry about the balance of payments deficit because of its effect on *confidence*. As official dollar liabilities held abroad mounted with successive deficits, the likelihood increased that these dollars would be converted into gold and that the US monetary gold stock would eventually reach a point low enough to trigger a run. Indeed by 1959, the US monetary gold stock equalled total external dollar liabilities, and the rest of the world's monetary gold stock exceeded that of the US. By 1964, official dollar liabilities held by foreign monetary authorities exceeded that of the US monetary gold stock."

"A second source of concern was the dollar's role in providing *liquidity* to the rest of the world. Elimination of the US balance of payments deficits (as the French and Germans were urging) could create a global liquidity shortage. There was much concern through the 1960s as to how to provide this liquidity.

Robert Triffin (1960) captured the problems in his famous dilemma. Because the Bretton Woods parities, which were declared in the 1940s, had undervalued the price of gold, gold production would be insufficient to provide the resources to finance the growth of global trade. The shortfall would be met by capital outflows from the US, manifest in its balance of payments deficit. Triffin posited that as outstanding US dollar liabilities mounted, they would increase the likelihood of a classic bank run when the rest of the world's monetary authorities would convert their dollar holdings into gold (...) Triffin's solution was to create a form of global liquidity like Keynes' (1943) bancor to act as a substitute for US dollars in international reserves."



US gold stock and external liabilities, 1951-1975

"The main threat to the system as a whole was the Triffin problem, which was exacerbated after 1965 by expansionary US monetary and fiscal policy which led to rising inflation (...) A key force

that led to the breakdown of Bretton Woods was the rise in inflation in the US that began in 1965 (...) Increasing US monetary growth led to rising inflation, which spread to the rest of the world through growing US balance of payments deficits (...) A key reason for Bretton Woods' collapse was the inflationary monetary policy that was inappropriate for the key currency country of the system. The Bretton Woods system was based on rules, the most important of which was to follow monetary and fiscal policies consistent with the official peg. The US violated this rule after 1965."

"As was argued by Despres et al. (1966) in contradistinction to Triffin, the ongoing US balance of payments deficit was not really a problem. The rest of the world voluntarily held dollar balances because of their valuable service flow – the deficit was demand-determined. In their view, the Bretton Woods system could have continued indefinitely."

Bordo, M. D. (2017) "The operation and demise of the Bretton Woods system: 1958 to 1971", NBER, Working Paper No 23189.

https://cepr.org/voxeu/columns/operation-and-demise-bretton-woods-system-1958-1971

Despres, E.; C. Kindleberger; W. Salant (1966) "The dollar and world liquidity: A minority view", *Economist* 5, February, 526-529.

33. 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."

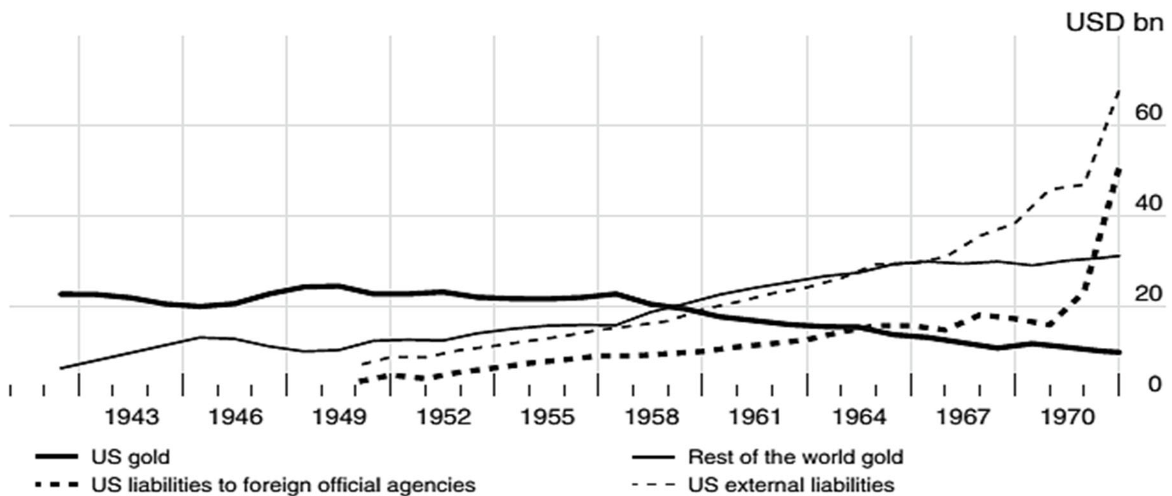
There was at the time "broad intellectual consensus on two basic, commonplace principles: (1) the need for an effective adjustment mechanism, precluding persistent disequilibria in any country's balance of payments; and (2) the need to adjust, and limit, world reserve creation to the non-inflationary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

34. The Triffin dilemma (Robert Triffin, 1911-1993)

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 below illustrates how the Bretton Woods system broke down.



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

The Triffin dilemma was the discovery that the unbalanced growth of certain macrofinancial magnitudes could genera-te 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).

36. 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).

"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.

37. 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.

38. 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.

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

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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.

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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.

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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.

39. The international monetary system

The international monetary system is defined by the set of rules, practices and institutions that organize and regulate economic and financial transactions between different national jurisdictions. At the most basic level, this system establishes:

- exchange rate regimes (anything between fixed and floating exchange rate regimes) between national currencies;
- how to create and transfer international liquidity;
- policies to correct balance of payments disequilibria (or other kinds of external imbalances).

40. 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."

41. 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.

42. 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."

43. 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.

44. 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.

45. 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.

46. 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."

47. 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.

48. The dollar in the international monetary system

The international monetary system is currently characterized by a centre (developed countries) and 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 the 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

49. 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.

50. Dollar as the core of the International Monetary System

"The US emerged from the two world wars to become the economically and politically dominant core state. The US specialized in the production of the most advanced goods, which involves the use of the most sophisticated technologies and capital-intensive production. The postwar international monetary order, the dual-peg exchange rates or the gold exchange standard, placed the dollar as the single core currency of the international monetary system (...) Nevertheless, after the late 1960s the US no longer held a significant economic advantage over its major allies in the sphere of world production (...) After 1971, the Bretton Woods system was de facto replaced by a regime of freely floating fiat currencies that remains in place to the present day (...) The principal benefits the US enjoyed from the dollar's status as the dominant international currency were: the ability to run balance-of-payment deficits that others could not, the willingness of foreign official institutions to purchaseand hold US government bonds, and the related and crucial discretion of the Federal Reserve to implement expansionary monetary policy to stimulate a recessionary economy or inflate away debts (...) In this sense, the manufacturing disadvantages and the trade deficits of the US in the global economy were offset by the exorbitant privilege of the dollar in the post-Bretton Woods monetary order, which perpetuated the US's position as the core of the world economy (...) The dollar's core status in the international monetary system is the centerpiece of the US's core status in the international system."

51. US-China symbiotic and asymmetric economic relations

"… the US and China have formed a symbiotic relationship because of the dollar's core status in the international monetary system and China's excessive manufacturing capacity and dependence on foreign markets (…) China in the twenty-first century has been committed to export-oriented growth based on maintaining a low exchange rate (…) The result was the continuous expansion of China's foreign exchange reserves. China used part of these foreign reserves to purchase US Treasury bonds in order to finance American balance-of-payment deficits. On the one hand, China repressed its own domestic consumption and exported large quantities of inexpensive goods, which helped reduce US inflation and stimulate US consumption. On the other hand, China's massive purchase of US Treasury bonds helped lower their yields and bring down US interest rates, as another effort to secure the continuous increase of US demand for China's exports (…) It is estimated that about two-thirds of China's reserves are held in the form of dollar debt (…) The US and China have formed a symbiotic relationship in the capitalist world economy since the 1990s: the US consumes China's cheap exports, paying China in dollars, and China holds US dollars and bonds, in fact lending money to the US."

"China, as a semi-periphery, is more vulnerable in the symbiotic relationship of its own making (…) Were China to dump its dollar reserves and destabilize the world economy, it would definitely hurt itself as well as the US. China would not only lose much the value of its reserves with the falling dollar, but would also jeopardize Americans' ability and willingness to continue to import Chinese goods, which would probably give rise to job loss and social instability in China. On the other hand, China's vulnerability can be seen in the enormous difficulties faced by its manufacturing exports after the global financial crisis (…) Therefore, it is more proper to describe the US–China economic relationship as symbiotic but asymmetric."

52. Old and new Triffin dilemmas

"Many economists and government officials have concluded that the unipolar, dollar-based monetary system is seriously flawed. Belgian-American economist Robert Triffin pointed out in the 1960s that an international monetary system based on the currency of one country cannot sustainably deliver both liquidity and confidence. More specifically, the continuous growth of the world economy demands a steady stream of dollars, which requires the US to run balance-of-payments deficits. However, excessive US deficits erode people's confidence in the dollar's value (convertible into gold at a fixed price). This inherent conflict between the dollar's role as the world's reserve currency and the declining confidence in the dollar in the postwar international monetary system is called the Triffin dilemma. Though the Triffin dilemma was directed against the Bretton Woods monetary system, it remains valid for today's international monetary system. The modern version posits that the massive amount of dollars created by the US authorities to satisfy world demand is inconsistent with people's confidence in the dollar's value (convertible into a fixed basket of US goods and services). Here arises the question of why the dollar remains the preeminent currency in the international monetary system despite the relative American economic decline and the obvious flaw of dollar hegemony. Eichengreen provides a simple but compelling answer: 'The dollar's dominance was supported by a lack of alternatives.'"

53. Towards a multipolar currency system?

"Despite the rapid development of RMB internationalization, it is also worth noting that for the time being the inconvertibility of the RMB, as well as China's capital account control, both impose severe restrictions on the RMB's role as an international reserve currency. Therefore, the internationalization of the RMB is not expected to dethrone the dollar as the key international reserve currency in the foreseeable future (…) The growing roles of the euro and the RMB in the global economy indicate that the unipolar, dollar-based monetary system is evolving into a multipolar currency system that will exercise better discipline over the fiat currencies in the international monetary order."

54. China's global role

"… the Chinese leadership is thinking beyond the current world system to craft a post-Western world order in an incremental manner. With regard to the three competing hypotheses—the convergence hypothesis, the status quo hypothesis, and the challenge hypothesis—this paper lends no direct support to any of them (…) It is not in China's interest to take extreme measures to destabilize or overthrow the existing world order; thus the radical challenge hypothesis is rejected. Moreover, the US-China economic relationship is asymmetric, which underlies the structural crisis of the world economy. It is argued that BW2 [the revived Bretton Woods system] is not sustainable in the long term; thus, the status quo hypothesis is also rejected. After the global economic crisis, the China leadership demonstrated its concerns with the existing international order, particularly the obvious flaw of a unipolar dollar-based monetary system. In this sense, the convergence hypothesis seems implausible. By anticipating the scenario that China could eventually shift to a more sustainable development model and push the internationalization of the RMB to reform the current international monetary system, one might conclude that China's policy response is more inclined to the challenge hypothesis. Even so, it is still more proper to describe China as a 'dissatisfied responsible great power.' China's incremental reforms in both domestic and international domains after the global crisis reveal that China as a rising power is no longer a rule-taker, accepting the status quo with regard to the current arrangement of international monetary order. Rather, China is better viewed as some combination of a rule-maker (promoting global reforms of existing arrangements) and a rule-breaker (in that it is creating its own arrangements)."

Wang, Zhaohui (2017): "The economic rise of China: Rule-taker, rule-maker, or rule-breaker?", Asian Survey 57(4), 595-617.

55. Attributes of an international reserve currency (Eichengreen, 2013)

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.

- <u>Stability</u>: 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.
- <u>Liquidity</u>: 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.

56. The status of the dollar

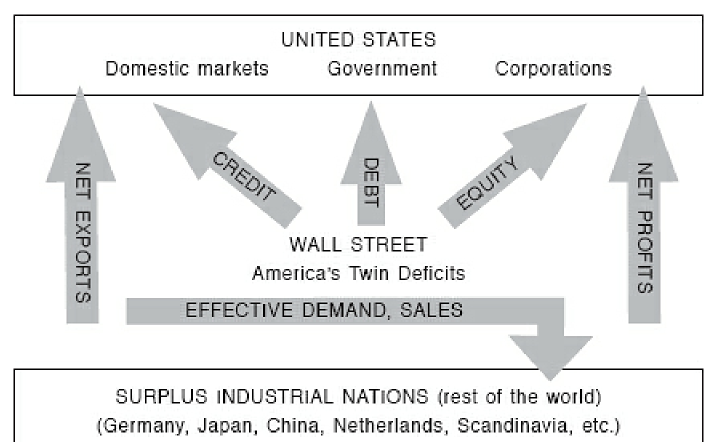
When the euro was created in 1999 some claimed that the euro would challenge the international status of the dollar (for instance the recipient of the Nobel Prize in economics Robert Mundell, 'the father of the euro'). Two decades after, this prediction does not appear to have materialized. The 2008 global financial crisis (and, specifically, the European debt crisis) has weakened the attractiveness of the euro as a global competitor to the dollar. The status of the dollar itself has been damaged by the global financial crisis: the confidence in the dollar as an international currency has been negatively affected by the unorthodox fiscal and monetary measures adopted in the US to combat the financial and economic effects of the crisis. These events have pointed to the renminbi as possible replacement of the dollar as a leading international currency. Chey (2013) contends that this replacement is unlikely in the medium run: politically and economically China is not yet an internationally strong power. What appears more likely is the emergence of the renminbi as an Asian regional currency.

Hyoung-kyu Chey (2013): "Can the renminbi rise as a global currency? The political economy of currency internationalization," *Asian Survey* 53(2), 348-368.

Cohen, Benjamin J. (2011): *The future of global currency: The euro versus the dollar*, Routledge, London and New York.

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

57. Varoufakis's global minotaur hypothesis



"I might have called this book The Global Vacuum Cleaner, a term that captures quite well the <u>main feature of the second post-war phase that began in 1971</u> with an audacious strategic decision by the US authorities: <u>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</u>

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.

58. G-Zero

"G-Zero—\JEE-ZEER-oh\– n *A world order in which no single country or durable alliance of countries can meet the challenges of global leadership*."

"For the first time in seven decades, we live in a world without global leadership (…) In a world where so many challenges transcend borders—from the stability of the global economy and climate change to cyberattacks, terrorism, and the security of food and water—the need for international cooperation has never been greater. Cooperation demands leadership. Leaders have the leverage to coordinate multinational responses to transnational problems. They have the wealth and power to persuade governments to take actions they wouldn't otherwise pursue. They pick up the checks that others can't afford and provide services no one else will pay for. On issue after issue, they set the international agenda. These are responsibilities that America is increasingly unwilling, and incapable, of assuming. At the same time, the rising powers aren't yet ready to take up the slack (…) Nor are we likely to see leadership from global institutions (…) If not the West, the rest, or the institutions where

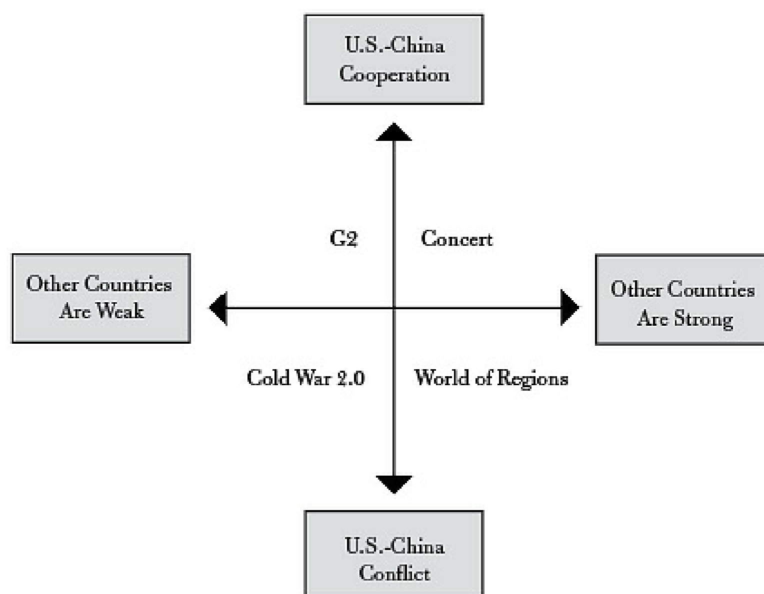
they come together, who will lead? The answer is no one—neither the once-dominant G7 nor the unworkable G20. We have entered the G-Zero."

"This book details a world in tumultuous transition, one that is especially vulnerable to crises that appear suddenly and from unexpected directions. Nature still hates a vacuum, and the G-Zero won't last forever. But over the next decade and perhaps longer, a world without leaders will undermine our ability to keep the peace, to expand opportunity, to reverse the impact of climate change, and to feed growing populations. The effects will be felt in every region of the world—and even in cyberspace."

Bremmer, Ian (2012): *Every nation for itself. Winners and losers in a G-zero world*, Portfolio/Penguin, New York.

59. Winners and losers in G-Zero (Ian Bremmer, 2012)

"Who wins and who loses in this exceptionally fluid international environment? A winner is made more prosperous and secure by a world without leadership, and has more options and greater influence than it had before. Winners have choices. A loser is one made less prosperous, secure, and influential because it has fewer political and commercial avenues to explore."



- **Winners.** 'Pivot states' (Brazil, Turkey, Africa a pivot continent, Indonesia, Vietnam, Singapore, Mongolia, Canada); 'rogues with powerful friends' (North Korea, Iran, Myanmar); some companies and multinationals (adapters, protectors and cheaters); and investors picking the winners.
- **Losers.** 'Referees' ("the institutions built to serve those who once dominated the international system but that can't be reformed quickly enough to remain effective", like NATO and "NGOs that monitor emerging states' compliance with Western standards"); 'exposed states' ("those most deeply dependent on U.S. strength and Washington's willingness to use it to protect its allies": Japan, Taiwan, Israel); 'shadow states' ("those that would love to have the freedom of pivot states but remain frozen in the shadow of a single power": Mexico, Ukraine); 'rogues without friends' (Cuba, Lybia); and 'dinosaurs' (companies "that cannot or will not adapt to a new environment").

60. Ian Bremmer's (2012) four geopolitical scenarios

- **Concert.** "Imagine a world in which Washington and Beijing alone cannot dominate, where it's unavoidably obvious that international problems can be solved only with the engagement of other powerful countries. This is a world like the one we already live in—with one crucial difference. In this scenario, a sense of emergency ensures that established and emerging powers work together, compromise, and share the risks and burdens of leadership. It's a G20 that *actually works*. This scenario implies a kind of 'concert of nations,' an international structure similar to the so-called

Concert of Europe (...) designed to restore order and keep the peace in Europe following the upheaval of the French Revolution and the carnage of the Napoleonic Wars."

- **Cold War 2.0.** "If China and the United States are headed for more direct forms of conflict, and if they have far more economic, political, and military power than any other country or bloc of countries in the post-G-Zero order, then we are more likely to see a scenario we might call Cold War 2.0. This is not a war likely to be waged with fighter jets launched from aircraft carriers. The new weapons of war will probably be economic: market access, investment rules, and currency values. We could also see a series of cyberattacks and counterstrikes."

61. 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.

62. The decline of the US vs the rise of the rest

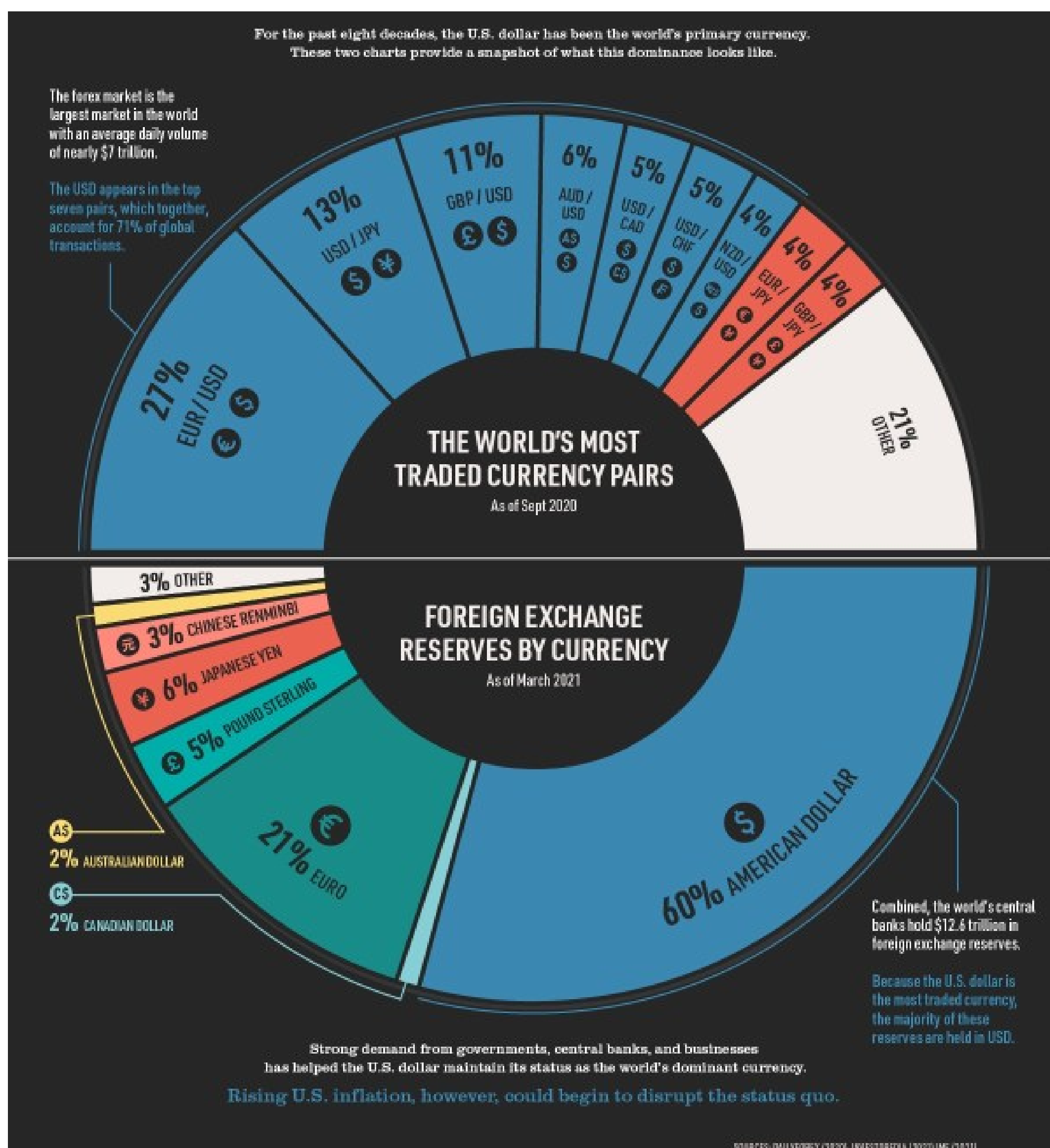
"There have been three tectonic power shifts over the last five hundred years, fundamental changes in the distribution of power that have reshaped international life—its politics, economics, and culture. The first was the rise of the Western world, a process that began in the fifteenth century and accelerated dramatically in the late eighteenth century. It produced modernity as we know it: science and technology, commerce and capitalism, the agricultural and industrial revolutions. It also produced the prolonged political dominance of the nations of the West. The second shift, which took place in the closing years of the nineteenth century, was the rise of the United States. Soon after it industrialized, the United States became the most powerful nation since imperial Rome, and the only one that was stronger than any likely combination of other nations. For most of the last century, the United States has dominated global economics, politics, science, and culture. For the last twenty years, that dominance has been unrivaled, a phenomenon unprecedented in modern history. We are now living through the third great power shift of the modern era. It could be called 'the rise of the rest'."

Zakaria, Fareed (2011): *The post-American world. Release 2.0*, W. W. Norton, New York.

63. US rise to global dominance

> "It would be simplistic to view the United States' rise to world dominance as following the European model characterized by the drives of private finance capital (...) The United States has achieved its global position through novel policies that were not anticipated by economists writing prior to World War I, or indeed prior to the 1970s. One lesson of U.S. experience is that the national diplomacy, embodied in what now is called the Washington Consensus, is not simply an extension of business drives. It has been shaped by overriding concerns for world power (euphemized as national security) and economic advantage as perceived by American strategists quite apart from the profit motives of private investors. Although the roots of imperialism and its diplomatic rivalries always have been economic in character, these roots – and especially their tactics – are not the same for all nations in all periods (...) The United States' ascent to world creditor status after World War I resulted from the unprecedented terms on which its government extended armaments and reconstruction loans to its wartime allies."

Hudson, Michael (2003): *Super imperialism. Origin and fundamentals of US world dominance*, 2nd edition, Pluto Press, London.



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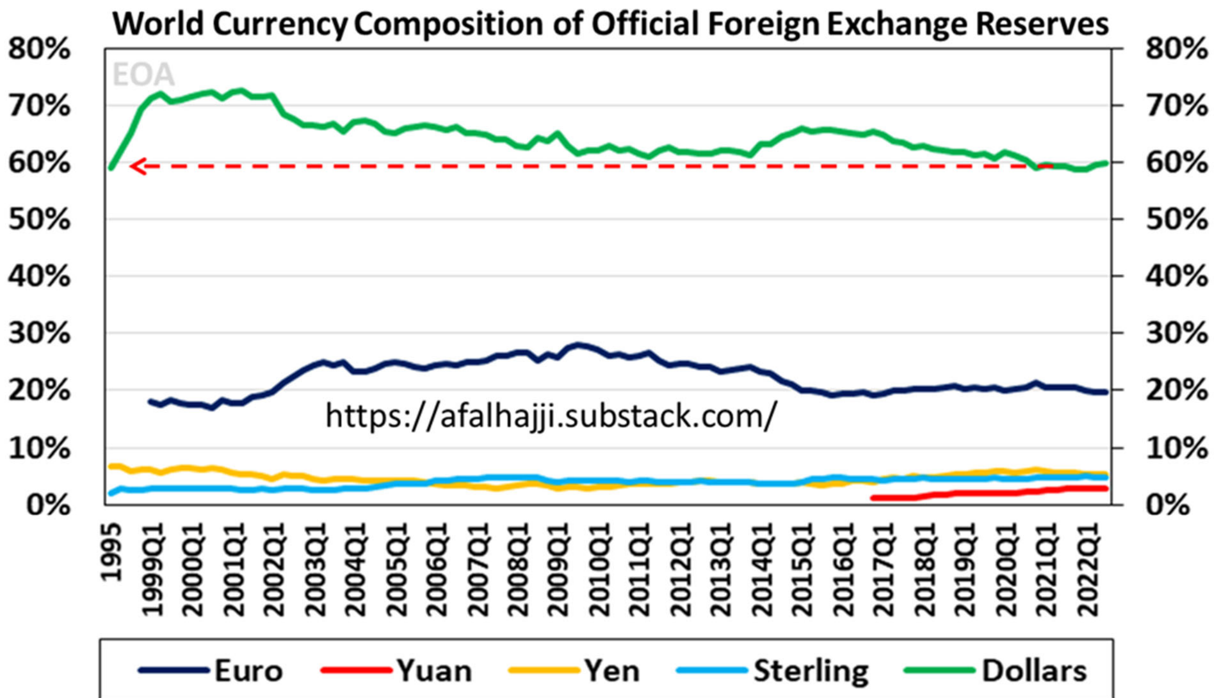

Source: IMF, 2023 and EOA, 2023

https://afalhajji.substack.com/p/daily-energy-report-098?r=1vkr3y&utm_campaign=post&utm_medium=web

Currency Pair	Share of Global Transactions
EUR/USD	27%
USD/JPY	13%
GBP/USD	11%
AUD/USD	6%
USD/CAD	5%
USD/CHF	5%
NZD/USD	4%
EUR/JPY	4%
GBP/JPY	4%
Other	21%

Currency	Share of Total Reserves
US dollar	60%
Euro	21%
Japanese Yen	6%
Pound sterling	5%
Chinese renminbi	3%
Australian dollar	2%
Canadian dollar	2%
Other	3%

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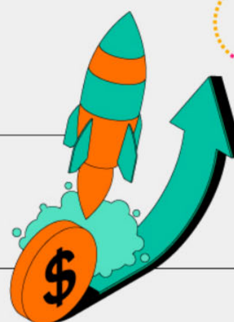
WHAT FACTORS

Drive the U.S. Dollar?

MARKETS IN A MINUTE



Amid market turbulence, the U.S. Dollar Index, or "The Dixie" hit its highest level in 20 years.

Below, we chart the history of the index along with key factors affecting the dollar's strength.

FACTORS THAT INFLUENCE THE U.S. DOLLAR

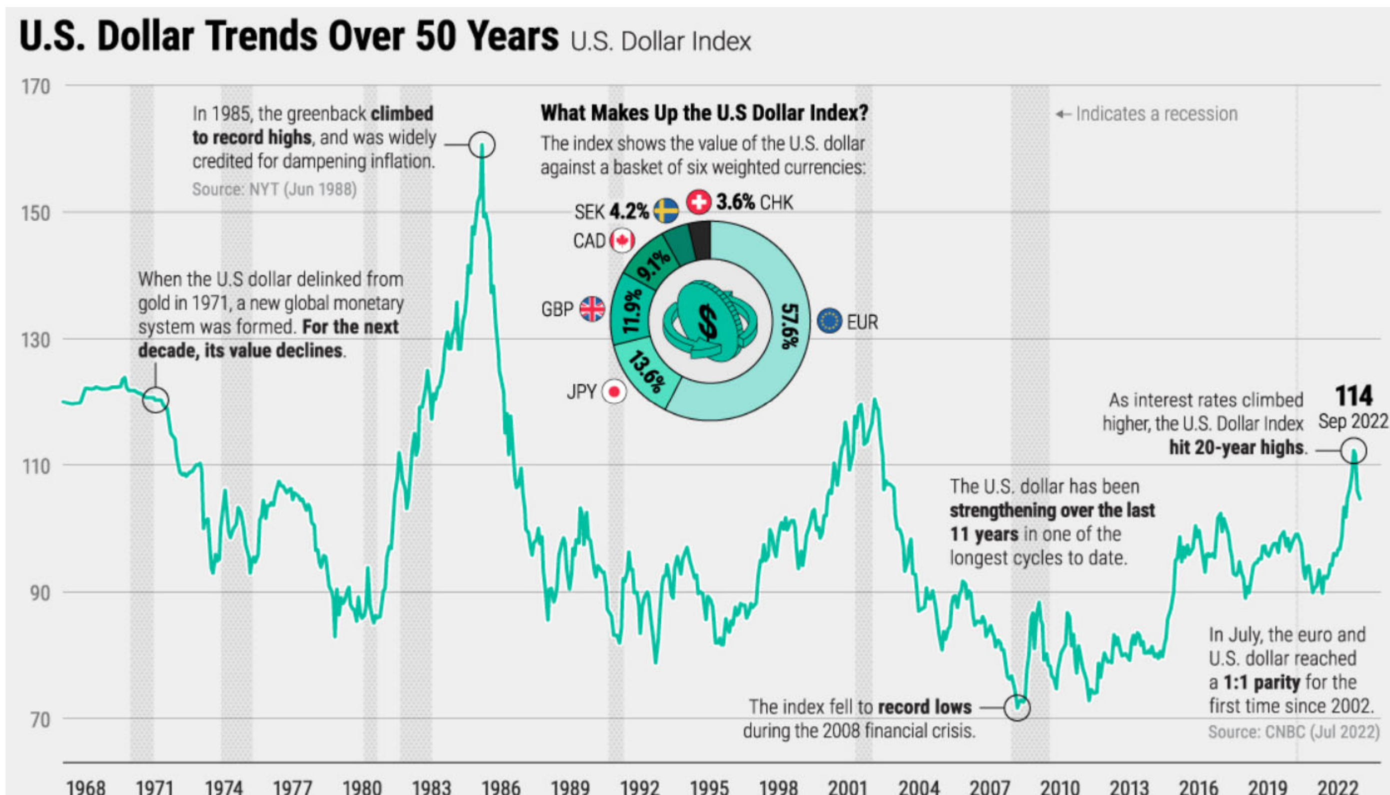
1 Inflation
High U.S. inflation drives interest rate hikes.

2 Interest Rates
Higher interest rates mean higher yields for U.S. dollar investors.

3 Safe-Haven Status
As the world's reserve currency, investors buy U.S. dollars during market turmoil.

4 Economic Growth
Historically, the U.S. has had reliable growth, attracting investors during economic uncertainty.

https://advisor.visualcapitalist.com/visualized-what-factors-drive-the-u-s-dollar/



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64. 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."

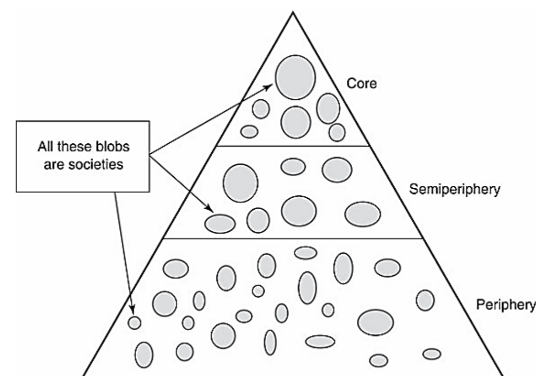
"Capitalism, as a social order held together by a promise of boundless collective progress, is in critical condition. Growth is giving way to secular stagnation; what economic progress remains is less and less shared; and confidence in the capitalist money economy is leveraged on a rising mountain of 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.

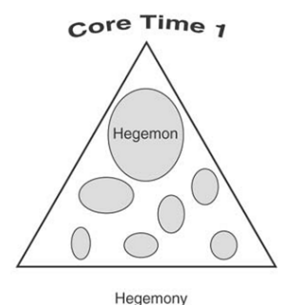
65. The modern world-system: core, periphery and semiperiphery

"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."

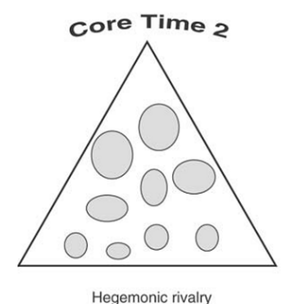


"The modern world-system is structured politically as an interstate system—a system of competing and allying states (...) The modern world-system is also importantly structured as a core-periphery hierarchy in which some regions contain economically and militarily powerful states while other regions 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.

66. 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.

67. 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.

68. 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.

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

69. 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."

70. 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."

71. 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."

72. 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."

73. 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.

74. 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."

75. 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.

76. '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.

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

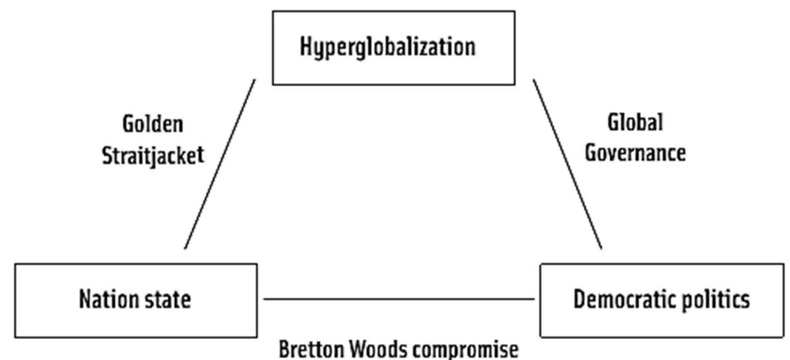
There exists a tension between the economic reality (the global nature of many markets) and the political reality (the local nature of the institutions under which markets operate).

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

78. 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).



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

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

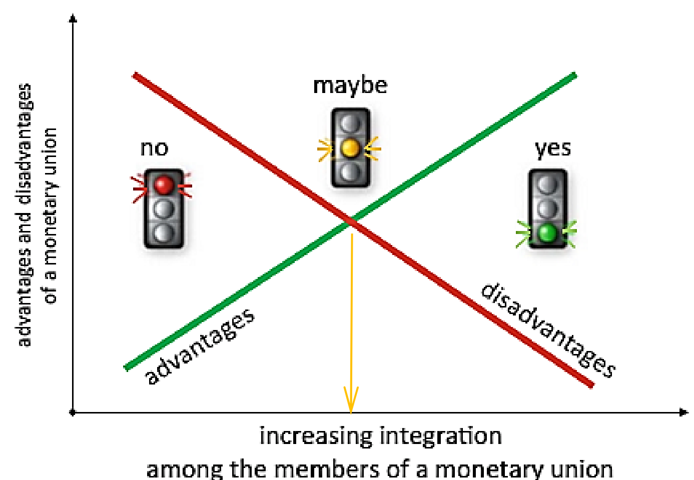
79. Economic integration

"In general, this integration may take five main forms, which (in order of increasing degree of integration) are: 1) A preferential trading club, which is an agreement between two or more countries to reduce tariffs and other restrictions on imports from one to the other; each member, however, retains complete freedom to impose different tariffs and other restrictions on imports from non-member countries. 2) A free-trade area (or association), in which the partner countries abolish tariffs and other restrictions on imports from one to the other, while retaining complete freedom over their commercial policies towards the rest of the world. 3) A customs union, which, in addition to the provisions of the free-trade area, establishes a common external tariff schedule on all imports from non-member countries. 4) A common market, in which the countries, in addition to the provisions of the customs union, allow free movement of all factors of production among themselves. 5) An economic union, in which the partner countries, in addition to the provisions of the common market, proceed to unify their economic policies."

Gandolfo, Giancarlo (1987): *International economics I*, Springer.

80. Un model elemental sobre quan crear una unió monetària

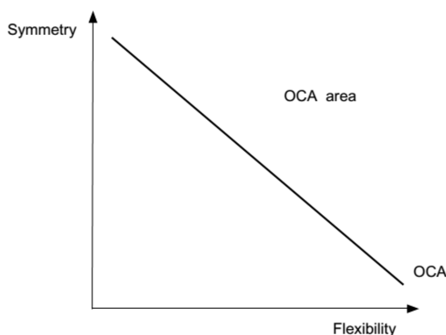
La figura de la dreta (Herger, 2019) descriu un model de creació d'unions monetàries. La variable fonamental és el grau d'integració (econòmica, social, cultural…) entre els possibles membres de la unió. D'una banda, els beneficis i avantatges de formar la unió (la línia verda) tendeixen a créixer amb el grau d'integració: més integració, més avantatges de constituir una unió monetària. De l'altra, els costs i desavantatges de crear la unió (la línia vermella) tendeixen a decréixer amb el grau d'integració: més integració, menys desavantatges de constituir una unió monetària. Segons aquest model, s'adoptaria una moneda única quan s'assoleix un grau d'integració on els avantatges superen els desavantatges (on marca la fletxa groga).



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

81. Conditions to make a monetary union

"The conditions that are needed to make a monetary union among candidate Member States attractive can be summarized by three concepts: Symmetry (of shocks); Flexibility; Integration. Countries in a monetary union should experience macroeconomic shocks that are sufficiently correlated with those experienced in the rest of the union (*symmetry*). These countries should have sufficient *flexibility* in the labour markets to be able to adjust to asymmetric shocks once they are in the union. Finally they should have a sufficient degree of trade *integration* with the members of the union so as to generate benefits of using the same currency."



"Figure 1 presents the minimal combinations of symmetry and flexibility that are needed to form an optimal currency area by the downward-sloping OCA line. Points on the OCA line define combinations of symmetry and flexibility for which the costs and the benefits of a monetary union just balance. It is negatively sloped because a declining degree of symmetry (which raises the costs) necessitates an increasing flexibility. To the right of the OCA line, the degree of flexibility is sufficiently large given the degree of symmetry to ensure that the benefits of the union exceed the costs. To the left of the OCA line, there is insufficient flexibility for any given level of symmetry.

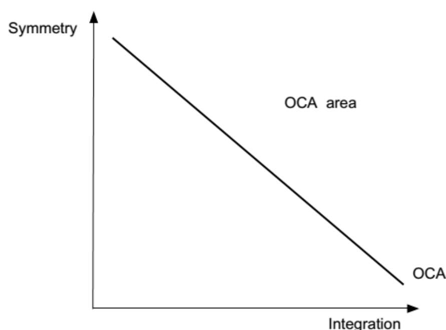


Figure 2 presents the minimal combinations ofsymmetry and integration that are needed to form an optimal currency area. The OCA line represents the combinations of symmetry and integration among groups of countries for which the cost and benefits of a monetary union just balance. It is downward sloping for the following reason. A decline in symmetry raises the costs of a monetary union. These costs are mainly macroeconomic in nature. Integration is a source of benefits of a monetary union, i.e., the greater the degree of integration the more the member countries benefit from the efficiency gains of a monetary union. Thus, the additional (macroeconomic) costs produced by less symmetry can be compensated by the additional (microeconomic) benefits produced by more integration. Points to the right of the OCA line represent groupings of countries for which the benefits of a monetary union exceed its costs.

The presumption of many economists at the end of the 1980s was that the EU countries should be located to the left of the OCA lines in Figures 1 and 2, i.e., given the degree of integration achieved in the EU there was still too much asymmetry and too little flexibility for the EU to form a monetary union whose benefits would exceed the costs."

82. Monetary union theories: Mundell I and Mundell II

"Mundell I is the traditional theory of optimal currency areas (OCA) pioneered by Mundell (1961) in the early 1960s and further elaborated by McKinnon (1963), Kenen (1969) and others. The OCA theory determines the conditions that countries should satisfy to make a monetary union attractive, i.e. to ensure that the benefits of the monetary union exceed its costs. This theory has been used most often to analyse whether countries should join a monetary union. It can also be used to study the conditions in which existing members of a monetary union will want to leave the union."

"In the world of Mundell II joining a monetary union should not be seen as a cost arising from the loss of the exchange rate as an adjustment mechanism, but as a benefit of eliminating a source of asymmetric shocks. For most countries, the exchange rate does not provide a degree of freedom but uses up a degree of freedom in their economic policy since they have to stabilize this asset price (…) The view expressed by Mundell II is based on the idea that foreign exchange markets are

not efficient and should not be trusted to guide countries towards macroeconomic equilibrium. There is a second insight in Mundell II. This is that only in a monetary union can capital markets be fully integrated so that they can be used as an insurance mechanism against asymmetric shocks (…). When countries remain outside a monetary union they cannot hope to profit from insurance against asymmetric shocks provided by capital markets in the rest of the world. The reason is that the large and variable exchange risk premia prevent these capital markets from providing insurance against asymmetric shocks. Thus the world of Mundell II is one in which countries that stay outside a monetary union will have to deal with large asymmetric shocks that arise from the instability of international capital flows. In addition, these countries' ability to insure against traditional asymmetric shocks is severely restricted when they stay outside a monetary union. With such an analysis it should not be surprising that Mundell II became a major promoter of monetary union in large parts of the world, and in particular in Europe."

De Grauwe, Paul (2006): "What have we learnt about monetary integration since the Maastricht Treaty?", Journal of Common Market Studies 44(4), 711-730.

83. Economic integration and political disintegration

"In a world of trade restrictions, large countries enjoy economic benefits, because political boundaries determine the size of the market. Under free trade and global markets even relatively small cultural, linguistic or ethnic groups can benefit from forming small, homogeneous political jurisdictions. This paper provides a formal model of the relationship between openness and the equilibrium number and size of countries, and successfully tests two implications of the model. Firstly, the economic benefits of country size are mediated by the degree of openness to trade. Secondly, the history of nation-state creations and secessions is influenced by the trade regime."

Alberto Alesina, Enrico Spolaore, Romain Wacziarg (2000): "Economic integration and political disintegration", American Economic Review 90(5), 1276-1296.

Ronald W. Jones, Sugata Marjit (2001): "The role of international fragmentation in the development process", American Economic Review 91(2), 363-366

84. European integration

"The issue of European integration was framed by theoretical analyses most of which were undertaken as part of the orthodoxy of Optimum Currency Areas. The traditional OCA theory holds that in a monetary union of countries which meet certain criteria, namely a minimum level of convergence, less developed economies are expanding faster than developed ones. As a result, there is convergence of the levels of per capita income with the one of developed economies, namely real convergence. The arguments of this theory received strong criticism, thus giving rise to the endogenous OCA theory, according to which these criteria can be met ex post."

"Convergence, according to the endogenous growth theory is not the norm but the exception. Yet in particular these authors support that trade integration can possibly lead to an increase in the specialization of each country (…) and consequently to greater sensitivity towards a shock in the industrial sector, leading to more asymmetric business cycles (…) They also conclude that the

creation of the EMU is easily justified ex-post. This conclusion is also supported by the argument of the endogenous nature of financial integration (…) The overall conclusion is that the monetary union can strengthen trade integration and the synchronization of business cycles. Thus according to the theory of endogeneity, a process of structural transformations renders the member states more capable of satisfying the criteria of optimization ex-post."

"The anticipated benefits from the creation of an OCA, which must outbalance the relative cost, concern the reinforcement of internal and external equilibria and must facilitate the response to shocks. The main benefits include the elimination of the uncertainty involved in the exchange rate fluctuations – as trade between the members of the OCA and specialization are reinforced and scale economies are created – and the elimination of transaction costs and exchange rate risks."

"… the abandonment of Keynesian principles and the adoption of the monetarist Maastricht criteria (…) gave rise to strong concerns about the sustainability of the EMU. Ignoring the heterogeneity of member states of the union and imposing uniform rules of economic policy (…) created internal and external imbalances in the member states. These imbalances were reinforced by the global financial and economic crisis both within the EMU, and in the majority of the new EU members, creating debt crises and sovereign default risks. The European institutions have not provided an effective collective solution to the problem of the debt crisis. It was this gap that, within the framework of globalization, allowed dependence of problematic EU countries on international financial markets on high cost."

Makris, Georgios (2015): "Optimum currency area theory, nominal and real convergence controversies and the European experience after the recent global economic crisis", in Karasavvoglou, Anastasios; Ongan, Serdar; Polychronidou, Persefo; eds.: *EU crisis and the role of the periphery*, Springer.

Grubel, Herbert (2006): "The economics of monetary unions: Traditional and new", in *Regional Economic Integration: Research in Global Strategic Management, Volume 12*, pp. 55–75

85. 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.

86. EMU flaws

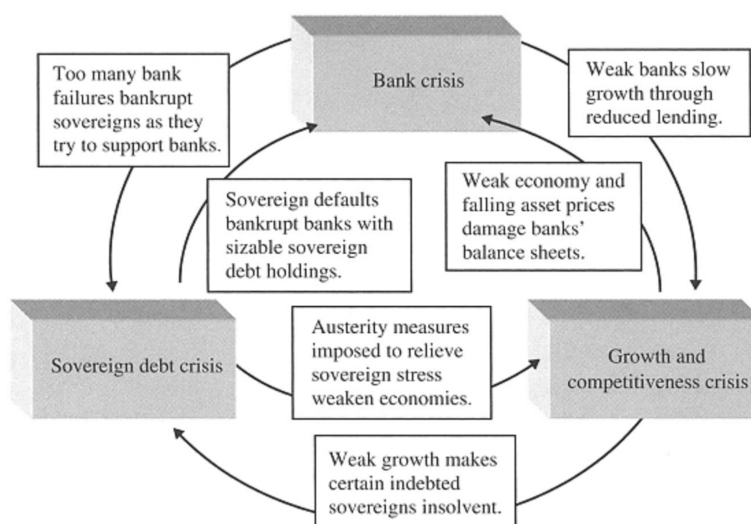
"The present governance of the euro area has been devised assuming that the world fits the monetarist-real-business-cycle theory. But that theory is not a correct representation of the world. The European monetary union is a remarkable achievement, but remains fragile because of the absence of a sufficient degree of political union."

"A first idea which may have helped to convince the critics of monetary union is that, even if the euro area countries do not yet satisfy the OCA criteria, they will in the future as the monetary union sets in motion a process of more intense integration. This good-news-theory suggests that the euro area may be moving safely into the OCA area by the very fact that the euro area was started."

"The European monetary union is a remarkable achievement. Yet it also remains fragile because of a flaw in its governance. This is the absence of a sufficient degree of political union which includes a central European government with the power to spend and to tax, and which is independent of national governments. Such a government is necessary to complement the macroeconomic management of the euro area which is now entrusted exclusively to the ECB. In addition, a central European government is the only institution that can fully back the ECB."

"Finally, the absence of a minimal degree of budgetary integration that can form the basis of an insurance mechanism is another flaw in the design of European monetary union. (…) It is difficult to conceive how a union can be politically sustainable if each time a country of the union gets into trouble because of asymmetric developments, it is told by the other members that it is entirely its own fault and that it should not count on any help. Such a union will not last."

87. The euro's three crises



In 2012 the eurozone faced three interdependent crises that challenged the euro's viability. (i) Banks had liquidity problems (banking crisis). (ii) Governments had funding problems, with yields on government bonds sky-rocketing (sovereign debt crisis). (iii) 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, as now these problems easily cross national borders.

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

88. EU crisis: a constitutional culture trilemma

"There are three paths to constitutionalism in the modern world. Under the first, revolutionary outsiders use the constitution to commit their new regime to the principles proclaimed during their previous struggle. India, South Africa, Italy and France have followed this path. Under the second, establishment insiders use the constitution to make strategic concessions to disrupt revolutionary movements before they can gain power. Britain provides paradigmatic examples. Under the third, ordinary citizens remain passive while political and social elites construct a new constitution. Spain, Japan and Germany provide variations on this theme. Different paths generate different legitimation problems, but the EU confronts a special difficulty. Since its members emerge out of three divergent pathways, they disagree about the nature of the union's constitutional problem, not merely its solution. Thus the EU confronts a cultural, not merely an economic, crisis."

Ackerman, Bruce (2015): "Three paths to constitutionalism – and the crisis of the European Union", British Journal of Political Science 45(4), 705-714.

89. L'euro: un error?

While there are many factors contributing to Europe's travails, there is one underlying *mistake*: the creation of the single currency, the euro. Or, more precisely, the creation of a single currency without creating a set of institutions that enabled a region of Europe's diversity to function effectively with a single currency.

The eurozone was flawed at birth. The structure of the eurozone—the rules, regulations, and institutions that govern it—is to blame for the poor performance of the region, including its multiple crises. The diversity of Europe had been its strength. But for a single currency to work over a region with enormous *economic and political* diversity is not easy. A single currency entails a *fixed* exchange rate among the countries and a single interest rate. Even if these are set to reflect the circumstances in the majority of member countries, given the economic diversity, there needs to be an array of institutions that can help those nations for which the policies are not well suited. Europe failed to create these institutions.

There is a large economic literature asking, what is required for a group of countries to share a common currency and have shared prosperity?[22] There was consensus among economists that for the single currency to work, what was required is that there be *sufficient* similarity among the countries.

So much importance was assigned to these fiscal concerns that they came to be called the *convergence criteria.* But the way the euro was designed led to *divergence*: when some country had an adverse "shock," stronger countries gained at the expense of the weaker. The fiscal constraints imposed as part of the convergence criteria—limits on deficits and debt relative to GDP—themselves contributed to divergence.

The adverse effects of a eurozone structure almost inevitably leading to divergence have been compounded by the *policies* that the eurozone has chosen to follow, especially in response to the euro crisis. Even within the strictures of the eurozone, alternative policies could have been pursued. That they were not is no surprise: a central theme of this book is that the same mindset that led to a flawed structure led to flawed policies.

Stiglitz, Joseph E. (2016): *The euro: How a common currency threatens the future of Europe*, W. W. Norton.

90. 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.

91. 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.

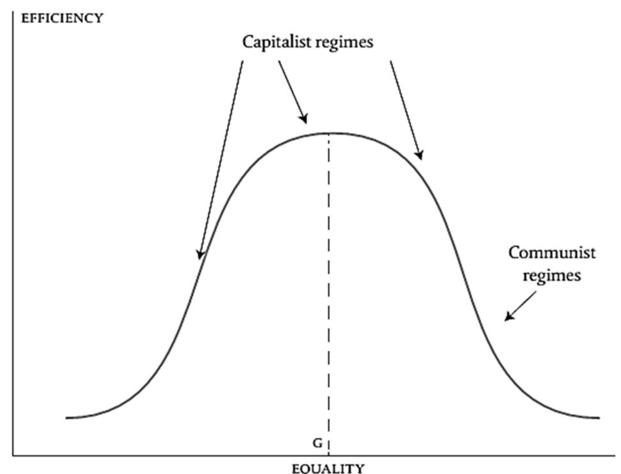
- "The scope of interventions and the measures taken by the federal institutions would so rely, even in the much longer term, on the principle 'as little as possible in normal times, but as much as necessary in exceptional times'." It appears that the ECB applied this principle during the Euro area debt 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.

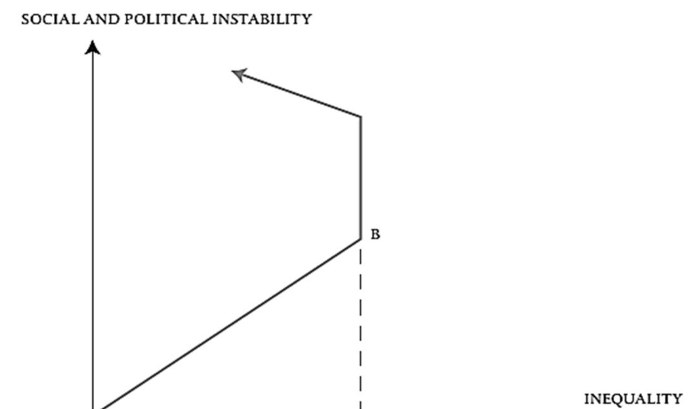
"People only accept change when they are faced with necessity, and only recognize necessity when a crisis is upon them." Jean Monnet

92. Government vs market: efficiency, equality, stability

The chart below on the right (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 (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.

93. Explaining the divergence in the economic performance of EMU members

There is a big divide in the EMU between two groups of countries. One group is led by Germany and includes those countries (clearly, Netherlands, Austria, Belgium; less enthusiastically, France) that, since the early 1980s, have reorganized their macroeconomic institutions to match the performance of the German economy (by pegging their currencies to the Deutsche Mark and keep unit labour controls under control or facilitate their falling).

The second group is given by those who tried later to attain exchange rate stability by linking their currencies to the Deutsche Mark and, in general, adapted their institutional macroeconomic framework as a means to satisfy the Maastricth Treaty criteria to join the EMU (clearly, Portugal, Italy and Greece; also, Ireland and Spain). For the latter group, the initial drop in labour costs in the 1990s to get read for the EMU was replaced by a continuous increase in the 2000s after the adoption of the euro. The fiscal crisis of 2009-10 culminated that evolution.

- An explanation of the divergence is given by the (so-called) irresponsible fiscal policies, and the fiscal mismanagement, that resulted from the attempt to compensate through fiscal activism the loss of monetary policy independence. Before the 2008 financial crisis, the interest rate differentials between the debts of the two groups were very small. That allowed the members of the second group to run up large volumes of public debt. This created fiscal imbalances that make those countries strongly vulnerable under the extraordinary conditions of the global financial crisis. The perception of that vulnerability made the fiscal position of those countries untenable and led to the European debt crisis.
- A second explanation involves labour market regulations. When the fundamental policy tools (monetary, fiscal and exchange rate policies) cannot be freely used, as occurs in the EMU, other institutions and variables should be 'more flexible' (and that usually is supposed to mean the labour markets and wages). Lack of sufficient 'labour flexibility' in the members of the second group of countries makes the underlying macroeconomic problems and imabalances more serious. This argument seems to forget that the labour markets of the states in the first group are equally inflexible, as they have strong labour unions and their wage-setting systems are relatively rigid (but now the expression used is 'highly organized').
- A third explanation (applied mostly to Spain and Ireland) have more to do with speculative manias and financial considerations: asset price inflation and bursting bubbles. Low interest rates fuelled an asset and construction boom through cheap mortgages and rising housing prices.
- A fourth one revolves around poor financial regulation (that attracted risky capital).
- A fifth explanation blames EMU itself, as some troubles made apparent by the euro crisis (such as massive current account divergences) correlate well with the start of EMU.

Bob Hancké (2013): Unions, central banks, and EMU: Labour market institutions and monetary integration, Oxford University Press, Oxford, UK.

Richard Peet (2009): *Unholy trinity: The IMF, World Bank and WTO.*

94. The Schuman Declaration (9 May 1950)

"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 coming together of the nations of Europe requires the elimination of the age-old opposition of France and Germany. Any action taken must in the first place concern these two countries. With this aim in view, the French Government proposes that action be taken immediately on one limited but decisive point. It proposes that Franco-German production of coal and steel as a whole be placed under a common High Authority, within the framework of an organization open to the participation of the other countries of Europe. The pooling of coal and steel production should immediately provide for the setting up of common foundations for economic development as a first step in the federation of Europe, and will change the destinies of those regions which have long been devoted to the manufacture of munitions of war, of which they have been the most constant victims. The solidarity in production thus established will make it plain that any war between France and Germany becomes not merely unthinkable, but materially impossible."

95. Eurozone crisis

"The eurozone crisis represents one of the greatest economic tragedies of the past century. It has caused immense human suffering, which continues to this day. The standard view attributes the economic crisis to an earlier buildup of public and private debt that was augmented by the imposition of austerity during the crisis. Although evidence exists of a relationship between the debt buildup, austerity measures, and economic growth during the crisis, that same evidence, on closer examination, points to eurozone countries' common monetary policy as the real culprit behind the area's sharp decline in economic activity. In particular, it seems that the European Central Bank's tightening of monetary policy in 2008 and again in 2010-2011 not only caused two recessions but also sparked the sovereign debt crisis and gave teeth to the austerity programs. Such findings point to the need for a new monetary policy regime in the eurozone. The case is made for the new regime to be a targeted growth path for total money spending."

Beckworth, David (2017): "The monetary policy origins of the eurozone crisis", International Finance 20, 114-134

96. EMU reforms and sovereign debt

"A missing element in the architecture of the euro area is a mechanism for an orderly restructuring of unsustainable sovereign debt. Clear rules for creditor participation in case of overindebtedness would strengthen market discipline and enhance the effectiveness of crisis assistance. We propose a novel two-stage mechanism that allows for postponing the crucial distinction between liquidity and solvency crises and is part of the assistance provided by the European Stability Mechanism (ESM). At the onset of a programme, the framework includes an immediate maturity extension if the debt burden is high. If post-crisis debt turns out to be unsustainable, the debtor country can negotiate a deeper debt restructuring. In addition, we introduce a gradual transition phase into the

new regime. As current debt matures, it is replaced by a new class of bonds with Creditor Participation Clauses (CPC), which are subject to the new rules as mentioned above."

"The recent reforms of the architecture of the European Monetary Union (EMU) build on the premise that national governments are responsible for fiscal policy. In order to help member states to control their indebtedness, the Stability and Growth Pact (SGP) was reformed and additional fiscal rules were introduced. The European Semester and national fiscal councils were established. With the creation of the European Stability Mechanism (ESM), an important element of a crisis mechanism became part of EMU architecture. However, the existing crisis mechanism lacks a framework for debt restructuring to constitute a safeguard against moral hazard and to handle cases of unsustainable public debt."

Jochen Andritzky, Désirée I. Christofzik, Lars P. Feld, Uwe Scheuering (2018): "A mechanism to regulate sovereign debt restructuring in the euro area", International Finance 1–15.

Colin Krainin (2016): "Preventive war as a result of long-term shifts in power", Political Science Research and Methods, available on CJO 2015 doi:10.1017/psrm.2015.35

97. Optimum currency area puzzle

"The theory of optimum currency areas, suggesting the redrawing of currency areas across countries or splitting of national money into several currencies, is at odds with the one-money-one-country pattern that has dominated monetary history for 26 centuries. This paper puts forward an equilibrium approach which, by stressing the influence of the border effect on intranational adjustment, solves the puzzle and analyzes the closely related issue of the viability of monetary unions and regional specialization (...) In a world of continuous change, tailoring currency areas to one inbuilt characteristic, as the received view prescribes, would at best answer just one type of imbalance. Likewise, redesigning currency areas in order to avoid asymmetric shocks would not do because the adjustment problem would emerge again in the new setting: under ever-mutating circumstances, a once-and-for-all policy is illusory."

"When we look at the factors that actually determinate the domains of different monies, we find that they are not the economic considerations suggested by the theory of optimum currency areas, as first discussed by Mundell, Kenen, and McKinnon 30 years ago. They are, rather, political. In particular, virtually all of the world's nations assert and express their sovereign authority by maintaining a distinct national money and protecting its use within their respective jurisdictions. Money is like a flag; each country has to have its own." (Michael Mussa 1995)

Cesarano, Filippo (2013): "The optimum currency area puzzle", Int Adv Econ Res DOI 10.1007/s11294-013-9404-5.

Mussa, Michael (1995): "One money for how many?" In P. B. Kenen; ed.: *Understanding interdependence: The macroeconomics of the open economy*, Princeton University Press, pp. 98-104.

Obstfeld, Maurice; Rogoff, K. (2001): "The six major puzzles in international macroeconomics: Is there a common cause?", In B. S. Bernanke; K. Rogoff; eds.: *NBER Macroeconomics Annual 2000*, volume 15, MIT Press, pp. 339-412.

98. El quartet inconsistent d'en Tommaso Padoa-Schioppa (1940-2010)

El trilema de l'economia oberta manté la inconsistència de tres decisions de política econòmica:

- integrar-se financerament ('llibertat de moviment de capitals');
- fixar la taxa de canvi (estabilitat canviària);
- triar la taxa d'interès (política monetària sobirana o independent dels altres països).

El context internacional de la inconsistència és bilateral, entre dos països. Què succeeix quan hi ha involucrats més de dos països? Des del punt de vista del trilema, res no impedeix que cada país resolgui el trilema de manera diferent. Per exemple, entre tres països, 1, 2 i 3 podrien integrar-se financerament, 1 fixar la taxa de canvi amb 2 (i renunciar a la sobirania monetària), 2 triar la taxa d'interès (i no preocupar-se per l'estabilitat canviària) i 3 fixar la taxa amb 1.

Què pot portar a uns països a voler l'estabilitat canviària i a altres no? Un motiu destacat és afavorir el comerç amb el país amb què es fixa la taxa. En aquest cas, és més natural que la integració comercial sigui mútua: si un país tria afavorir el comerç amb un altre (adopta una política de lliure comerç o, en tot cas, de comerç menys restringit) habitualment s'exigeix la contrapartida que l'altre país també redueix barreres comercials.

La Comunitat Econòmica Europea (CEE, l'antecendent de la Unió Europea) va néixer com a conjunt d'acords comercials. El camí cap a la Unió Europea significa adoptar eventualment la integració comercial (permetre la lliure circulació de béns). En aquest context, Tommaso Padoa-Schioppa suggerí l'existència d'un quartet inconsistent ('*quartetto inconciliabile*'): la impossibilitat de tenir a un temps, entre un grup de països,

- integració financera del grup;
- integració comercial del grup (lliurecanvi, lliure comerç o llibertat de moviment de béns);
- taxa de canvi fixa entre els membres del grup; i
- política monetària sobirana de cada membre del grup.

A inicis de la dècada de 1990, la CEE va esdevenir un Mercat Comú Europeu, això és, el membres van establir la integració financera i el lliure comerç (llibertat de moviment de béns i de capitals). L'anàlisi d'en Padoa-Schioppa (1982) alertava que, en presència d'integració financera i comercial, tots els membres del Mercat Comú Europeu havien de fer la mateixa elecció entre estabilitat canviària i independència monetària.

La raó és la següent: si es permet la volatilitat de les taxes de canvi i uns països se n'aprofiten comercialment dels altres depreciant o devaluant la seva moneda (la qual cosa millora la seva competitivitat), es produeixen tensions que posen en risc el manteniment del Mercat Comú (una devaluació en un context de taxes fixes però ajustables, que era el cas europeu, facilita el creixement de l'economia d'un país a expenses dels altres). D'aquí la conclusió és que l'estabilitat canviària mútua és condició necessària per a la viabilitat d'un mercat comú. Pel trilema, si tots els membres del mercat comú (que significa haver adoptat la llibertat de moviment de capital i béns) trien més l'estabilitat canviària, tots ells han de renunciar a la sobirania monetària. En suma, el Mercat Comú Europeu requereix establir un Banc Central Europeu i, com a manifestació de taxes de canvis fixes i

irrevocables, crear una moneda supranacional comuna: l'euro (Padoa-Schioppa és considerat el pare de l'euro).

L'eurozona comporta una doble decisió respecte a la resolució del trilema i del quartet. D'una banda, els membres de l'eurozona trien, respecte d'ells mateixos:

- mercat comú (moviment lliure de béns, capital i factors de producció);
- moneda única, això és, taxes de canvi irrevocables; i
- política monetària supranacional decidida per un Banc Central comú a tots els membres (per conseqüent, els membres no tenen la capacitat de triar independentment la política monetària).

Simultàniament, com a grup de països, l'eurozona tria, respecte de la resta del món:

- integració financera;
- taxes de canvi flexibles; i
- política monetària pròpia (la determinada pel Banc Central Europeu).

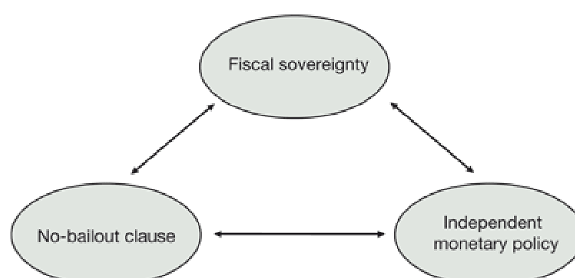
Des d'una altra perspectiva, els països de l'eurozona han resolt les tensions monetàries que van associades amb l'aprofundiment de la integració financera supranacionalitzant el diner (tirar cap amunt, cap a la governança global). L'altra proposta de solució a les tensions (avalada pel liberalisme econòmic més extrem) és la privatització del diner (tirar cap avall, reforçant el paper del sector privat en la gestió monetària; el bitcoin es podria interpretar un exemple d'aquest tipus de solució).

Les dues propostes il·lustren els dos grans enfocaments per a organitzar l'activitat econòmica: cooperació o competència. Padoa-Schioppa defensava la cooperació i la supranacionalitat en certes àrees de política econòmica (per exemple, la correcció de desequilibris comercials i l'ajustament global de taxes de canvi). Hi ha processos econòmics i preus que són massa importants a escala global com per a deixar-los en mans 'del mercat'[1]. Al temps, com a complement, adoptava el principi de subsidiarietat: deixar l'execució de les polítiques en mans de les autoritats competents més descentralitzades i més properes al ciutadà.

https://www.ecb.europa.eu/press/key/date/2011/html/sp110128.en.html

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.

99. The trilemma of a monetary union



"... 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 (...)

[1] En paraules d'en Padoa-Schioppa: "*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*". Un 'moment de Minsky' és un exemple d'un procés insostenible que 'arriba al seu final'.

- 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."

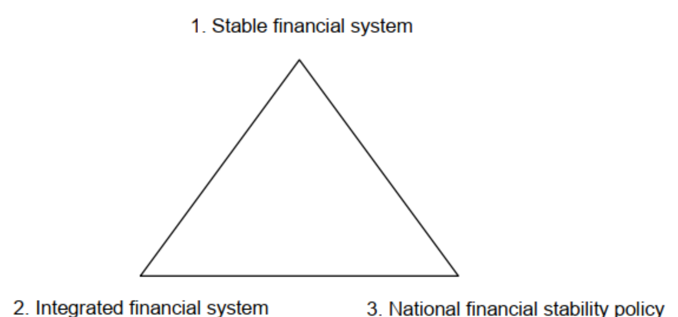
  "... if the regulatory framework of the monetary union contains a bailout clause, there will be a certain potential for moral hazard, i.e. countries accumulating large amounts of sovereign debt, expecting that they will be bailed out by the union. Such behaviour will sooner or later surely destroy the 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."

Hanno Beck; 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

100. The financial stability trilemma

"The financial stability trilemma states that a stable financial system, an integrated financial system and national financial stability policy are incompatible."

Dirk Schoenmaker (2008): "The Trilemma of Financial Stability"



https://www.researchgate.net/profile/Dirk-Schoenmaker/publication/252389620_The_Trilemma_of_Financial_Stability/links/004635322b82c9acf4000000/The-Trilemma-of-Financial-Stability.pdf

"It posits that only two of the following three can coexist at the same time:

1. Sole national responsibility for financial policy.
2. International financial integration.
3. Financial stability.

The euro area crisis, which erupted when banking oversight and resolution were still fully vested at the member-state level, is a poster child for the financial trilemma. Additional structural weaknesses played a role in the euro crisis, so it is vitally important (...) to point out that flexible exchange rates do not offer a full escape from the financial trilemma. Because the financial trilemma implies that national prudential policies cannot be fully effective when capital markets are open to cross-border

transactions, even when exchange rates are flexible, it provides the main rationale for a globally collaborative international reform agenda."

Maurice Obstfeld (2017): "Two Trilemmas for Monetary Policy"

https://www.imf.org/en/News/Articles/2017/07/24/sp072417-two-trilemmas-for-monetary-policy

101. The open economy trilemma, actually a dilemma?

"The global financial cycle has transformed the well-known trilemma into a 'dilemma'. Independent monetary policies are possible if and only if the capital account is managed directly or indirectly. This column argues the right policies to deal with the 'dilemma' should aim at curbing excessive leverage and credit growth."

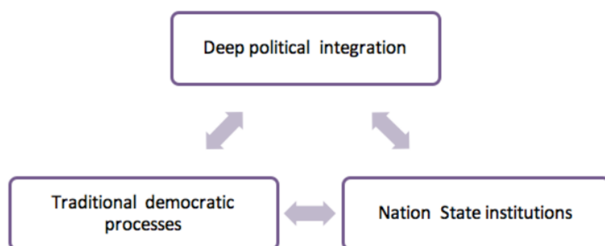
"A VAR analysis suggests that one of the determinants of the global financial cycle is monetary policy in the US, which affects leverage of global banks, capital flows and credit growth in the international financial system. Whenever capital is freely mobile, the global financial cycle constrains national monetary policies regardless of the exchange-rate regime."

Rey, H. (2013): "Dilemma not Trilemma: The global financial cycle and monetary policy independence", Jackson Hole Presentation, August.

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

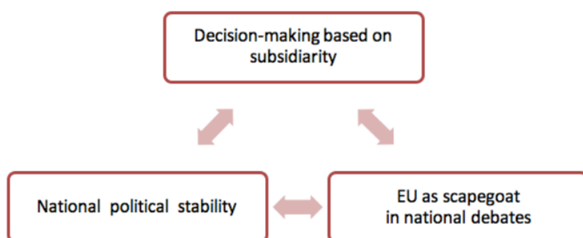
102. Europe's inconsistent political trinities

"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."



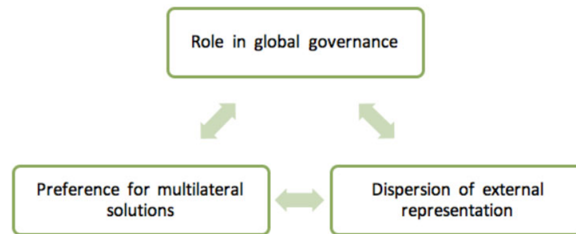
First inconsistent trinity: Political integration

"… 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."

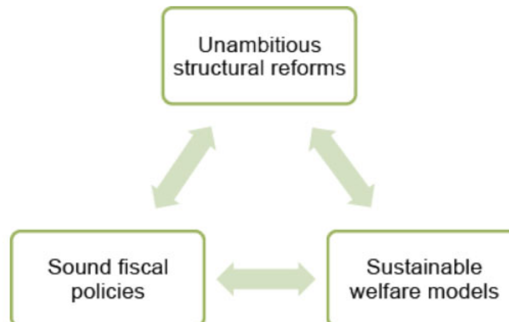


Third inconsistent trinity: Global governance

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

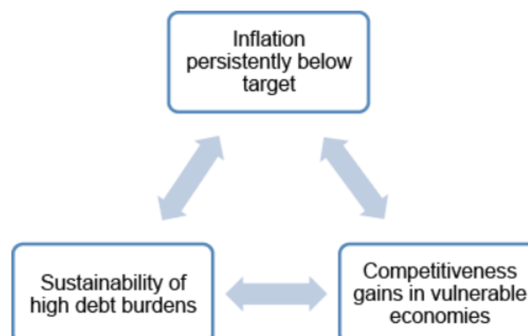
103. Inconsistencies in Europe's EMU

"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

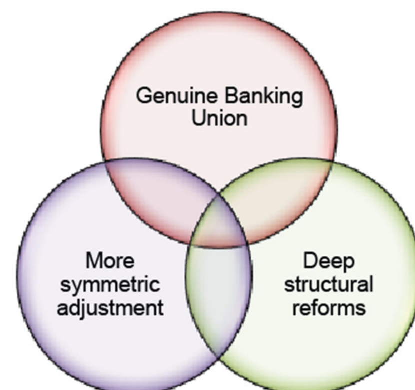
"This trilemma suggests that the aims of achieving financial stability within an integrated, competitive, and dynamic single financial market can only be satisfied by allowing for greater mutual responsibility for banking sector problems. This provides an intellectual underpinning to a genuine banking 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

104. A consistent trinity for Europe's EMU

"Consistent trinity

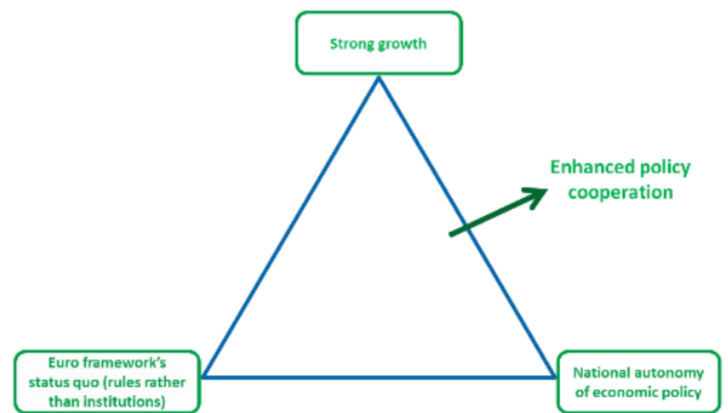
- Slow growth would be tackled by bold structural reforms both in the core and the periphery, which in turn would allow for maintaining sustainable welfare systems.
- Appropriate structural reforms would also increase domestic demand in the core, which would in turn have a positive effect on internal 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

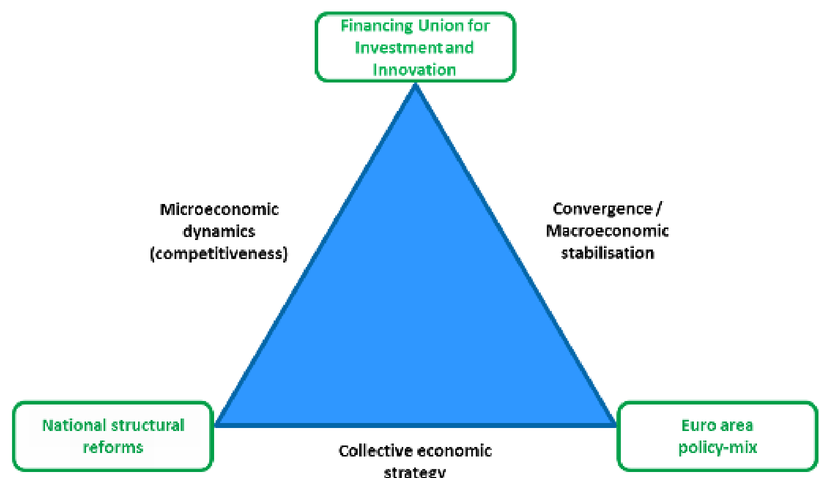
105. Europe's growth triangle



"... 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 cooperation between countries based only on rules without institutions and without a common strategy. 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."

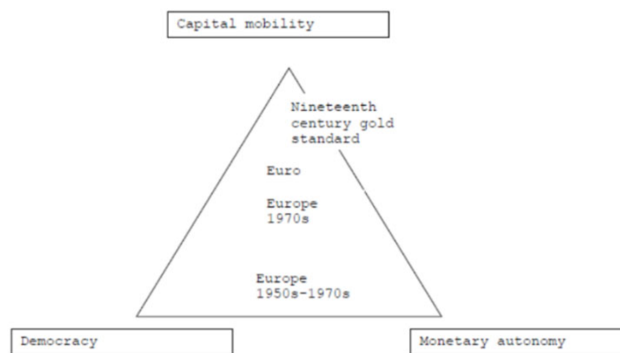
François Villeroy de Galhau (2017): "The future of the euro area - from the 'impossible trinity' to the 'growth triangle'"

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

106. The political economy trilemma

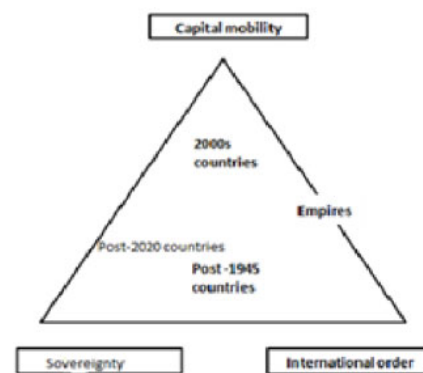
"After a period of financial opening, the consequent development of financial imbalances may strain the political system. States (whether they are autocracies or democracies) initially like the benefits that flow from open capital markets. Democracies, in which governments are responsive to short term

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 incompatibility of capital flows, independent monetary policy, and democracy. 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."

107. The international relations trilemma



"… 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."

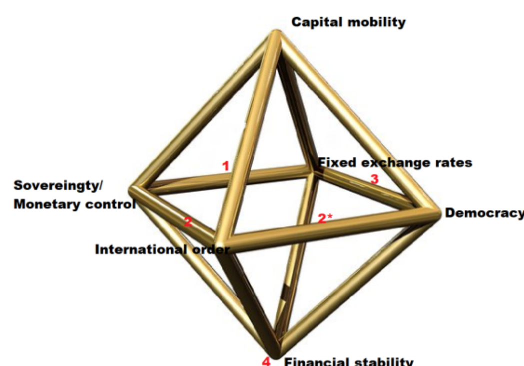
"… capital flows, democracy, and a stable international political order cannot be reconciled with each other simultaneously."

Harold James; 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/

108. L'octàedre d'estabilitat financera



"Financial stability and free capital movements thus stand in a permanent tension, that produces many trilemmas, 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 (2022) “Trapped in the Trilemma: When Security Trumps Economics”, Hoover Institution, Economics Working Papers.

109. Peter Frase’s four futures

The future world can end up dominated by either scarcity or abundance (reflecting ecological limits) and also by either hierarchy or equality (reflecting the political limits of a class society). Equality + abundance = communism (‘from each according to their ability, to each according to their need’: the Star Trek world). Hierachy + abundance = rentism (‘the techniques to produce abundance are monopolized by a small elite’). Equality + scarcity = socialism (‘live within your means while providing everyone the best lives possible’). Hierachy + scarcity = exterminism (‘communism for the few’, awaiting a ‘genocidal war of the rich against the poor’: Neill Blomkamp’s Elysium, 2013).

Peter Frase’s scenario	**ABUNDANCE**	**SCARCITY**
EQUALITY	Communism	Socialism
HIERARCHY	Rentism	Exterminism

110. Robert Costanza’s visions of the year 2100

The scenario matrix involves two dimensions: world views and policies (technological optimism vs skepticism) and the real state of the world (optimistics are right or skeptics are right). Technological optimism + optimistics right = Star Trek (resources are unlimited, technology can solve any problemability, economic competition is good). Technological skeptism + optimistics right = Big Government (resources are unlimited but governments regulate technological development to achieve social development). Technological optimism + skeptics right = Mad Max (resources are limited but free reign has been given to competition and technological expansion, so the world is ruled by powerful corporations). Technological skeptism + skeptics right = Ecotopia (with resources being limited, markets and consumerism have been disciplined to achieve sustainability).

David Costanza’s scenario	**OPTIMISTS RIGHT**	**SKEPTICS RIGHT**
TECHNOLOGICAL OPTIMISM	Star Trek	Mad Max
TECHNOLOGICAL SKEPTICISM	Big Government	Ecotopia