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From crisis to crisis: Capitalism, chaos and constant unpredictability

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Abstract

Far from being an event of a decade ago, the 2008 global financial crisis is a manifestation of an ongoing crisis of the world order, with social, political and ecological dimensions that cannot be seen separately from each other. The root cause of the crisis can be traced back to the collapse of the Bretton Woods System in August 1971, and the failure to design an equitable and inclusive global financial and economic governance architecture consistent with the changed global economic realities. The vacuum was quickly taken up by the neoliberal orthodoxy that pushed the agenda of wholesale liberalisation, resulting in unprecedented domination of speculative finance capital and multinational corporation–led globalisation. This has seen falling share of wages in national income, growing wealth concentration, rising income inequality and ballooning of household debts. The consequence was frequent and increasingly deeper and wider financial crises.

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Keywords

Debts, global economic governance, inequality, neoliberalism

Reflection on the socio-economic processes that fully showed their devastating power in 2008 does not mean that these processes are a matter of the past. They continue to take place today. The 10th anniversary of the global financial crisis (GFC) is only a pretext

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and a methodological opportunity to assess the phenomena that make up a permanent crisis of the world order that applies only to economics but also to the social, political and ecological spheres. It is difficult to separate these issues from each other. Those who offer a kind of simple methodological isolationism and look for solutions to individual problems do not see that this cannot be done without a holistic view of the social order (or rather disorder). Defects and failures observed in public life are due not only to a failure of state policies, management crises or financial crises but are the results of a systemic crisis that affects ever new areas of collective life. One should therefore agree with the following statement:

> Even if we pretend that the time before the collapse of subprime mortgage-backed securities markets and the bankruptcy of the New York investment bank Lehman Brothers – two of the most commonly-identified 'beginnings' of the crisis – was somehow an untroubled era of normality (which would of course be absurd), we are forced to acknowledge that the monetary and financial geographies produced since then are not accurately described as 'post-crisis' geographies, as if 'the' crisis happened, ended, and now we live in its 'aftermath'. We do not inhabit 'post-crisis geographies', but 'crisis geographies' – spaces, places, imaginaries and practices – that have been and continue to be constituted in and by crisis. (Christophers et al., 2017: 2)

Furthermore, in the world of globalised capitalism, the crisis cannot be considered with respect to selected countries. The geography of poverty in the modern world should naturally be outlined, but one must be aware that these areas are part of a larger whole. Although local differences in socio-economic conditions are enormous in individual regions of the world, these regions and countries are also diversified in this respect due to the same socio-economic processes that affect the whole world. However, the scale of the crisis, its manifestations and the reactions of individual countries depended on specific local conditions, including employment structure and social policy model in a given country. When outlining the factors influencing the geography of the crisis, Harvey (2010) states,

> Everything depended on the degree to which local banks and other institutions like pension funds had invested in the toxic assets being peddled from the United States; the degree to which banks elsewhere had copied US practices and pursued high-risk investments; the dependency of local firms and state institutions (such as municipal governments) upon open lines of credit to roll over their debts; the impact of rapidly falling consumer demand in the US and elsewhere on export-led economies; the ups and downs in the demand for and prices of raw materials (oil in particular). (p. 140)

According to the International Labour Organisation (ILO), in the 51 countries for which data were available, at least 20 million jobs were lost between October 2008 and December 2009. Furthermore, about 43 million people were at risk of exclusion from the labour market (International Institute for Labour Studies, 2009: vii). It can be assumed, however, that the global effects of the main shock wave of the crisis were much larger, especially in poor countries. In addition to the economic consequences, neoliberal turbulences also affected the social rights of entire classes and societies. Magdalena Sepúlveda Carmona (2014) notes that 'by 2009, at least 100 million more people were hungry and undernourished, a situation that continues to deteriorate owing to escalating food prices' (pp. 23–24).[1]

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The outbreak of the crisis also revealed a series of systemic errors of neoliberal policy in areas where, according to the neoliberal propaganda, the market alone was able to solve all social ills. This area was, and is, housing policy, which marked the symbolic beginning of the crisis in the United States (US). As Raquel Rolnik and Lidia Rabinovich (2014) rightly note,

> [H]ousing policies based exclusively on facilitating access to credit for homeownership are incompatible with the full realization of the right to adequate housing of those living in poverty, failing to supply habitable, affordable and well-located housing solutions accessible to the poor, as well as increasing inequalities in housing distribution. (p. 87)

Neoliberal counterrevolution: Rising wealth concentration and inequality

After moderating from the 1920s until the 1970s, inequality has grown with a vengeance from the 1980s with the neoliberal ascendancy unleashing regressive reforms on various fronts around the world, led by the International Monetary Fund (IMF) and the World Bank as well as capitalist institutions such as the Organisation for Economic Co-operation and Development (OECD). Providing political support for the neoliberal counterrevolution (Toye, 1987), the Governments of Margaret Thatcher in the UK and Ronald Reagan in the US embarked on wholesale deregulation, while assaulting labour rights. This has seen an unprecedented rise of corporate power and declines in the bargaining power of the working class since the early 1980s. In 'reverse Robin Hood' fashion, while governments cut social welfare programmes, elites were rewarded with cuts in personal and corporate income tax rates. There have also been massive transfers of public assets to elites through privatisation which caused job losses.

Thus, labour's share in gross domestic product (GDP) has declined precipitously since the early 1980s (Guerriero, 2012; ILO, 2008). According to the *World Inequality Report 2018*, the top 1% in the world had twice as much income growth as the bottom half since 1980. It also observed that rising income inequality has largely been driven by unequal wealth ownership. Meanwhile, income growth has been sluggish or even flat for those with incomes between the bottom half and the top 1%. Oxfam's (2018) *Reward Work, Not Wealth* report reveals that the world's wealthiest 1% got 82% of the wealth generated in 2017, while the bottom 50% saw no increase at all.

Interestingly, the IMF now finds that the neoliberal reforms – promoting privatisation, cutting government spending and strictly limiting fiscal deficits and government debt – that it advocated so vigorously have increased economic inequality (Ostry et al., 2016). Its research also finds that capital account liberalisation – it typically recommended to attract foreign capital inflows without due attention to the consequences of sudden outflows – has, in most cases, significantly and persistently increased national-level inequalities (Furceri and Loungani, 2013). The IMF's *Fiscal Monitor* (October 2017) acknowledges that regressive tax reforms since the early 1980s have caused tax incidence to be far less progressive, if not regressive, while failure to tax the rich more has increased inequality. Besides new tax evasion opportunities and much lower marginal income tax rates, capital gains are hardly taxed, encouraging top executives to pay themselves with stock options.

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The rising income and wealth inequality together with stagnating labour income has been the root cause of debt-financed consumption and speculative activities that ultimately led to the collapse of the financial sector. Unfortunately, nothing has changed in 10 years since the GFC. In fact, inequality and wealth concentration continue to rise due to austerity measures on social programmes, tax cuts and unconventional monetary policy that saw holders of financial assets gained disproportionately. Recent IMF research revealed that 'fiscal consolidation', typically involving austerity, has significantly worsened inequality, depressed labour income shares and increased long-term unemployment (Ball et al., 2013). The European Central Bank has acknowledged that quantitative easing (QE) has fuelled asset price inflation.[2] Kevin Warsh, a former US Federal Reserve Board member, has argued that QE has only worked through the 'asset price channel', enriching those who own financial assets, not the 96% who mainly rely on income from labour.[3]

While the Trump administration reversed some of the restraints on the financial sector imposed by the Obama administration, advanced-country governments still seem to be ignoring the limitations of an economic model that relies excessively on finance to create sustainable, inclusive growth, laid bare over the last 10 years. They often acted as if the crisis was merely a cyclical – albeit dramatic shock, believing that the economy would bounce back in a V-like fashion. Alas, the majority of the crisis-affected European countries suffered double-dip recessions and the global economic recovery remains tepid.

Instead of tackling inequality which would have not only addressed the underlying weaknesses but also supported recovery by boosting aggregate demand, there are some attempts to justify the status quo. In fact, it is quite remarkable how increasing wealth concentration has been described and presented to the public. For example, the Allianz (2016) has described the rising inequality trends as 'inclusive inequality', pointing to a growing global middle class even as inequality has been rising. Similarly, the Credit Suisse (2017) argues that wealth distribution is shifting as the world becomes wealthier, thus merely reflecting lower barriers to wealth acquisition. Josef Stadler, head of global ultra-high net worth at Swiss investment bank *UBS* Group AG and lead author of the *UBS/PwC Billionaires Report 2017*,[4] decries 'the perception that billionaires make money for themselves at the expense of the wider population' as incorrect, attributing billionaires' fortunes to the strong performance of their companies and investments. Besides their philanthropic contributions and patronage of the arts, culture and sports, 98% of billionaires' wealth are said by him to contribute to society as the world's super-rich employed 27.7 million people (quoted by Neate, 2017). Rather than making money from their employees' efforts, billionaires apparently make private welfare payments to them out of the goodness of their hearts!

Reactions of financial elites and societies to the crisis

In order to 'extinguish the fire', the power elites, in a short time, devoted enormous amounts of money to rescue financial institutions. In the US alone, until the beginning of 2009, the government spent USD12 trillion and offered support for debt repayment and other forms of financial involvement (Foster and McChesney, 2012: chapter 1). Financialisation, however, cannot be a good way out of the crisis. The economic situation in China and India has become the main source of hope for some. However,

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economic growth in these countries may also come to an end. The financial elites did not notice other system solutions.

Against popular opinion, the collapse of the banking system was not a cause but a manifestation of a more general crisis. A fall in asset prices and loan collateral is obviously a feature of the financial crisis. As Jan Toporowski (2017: 256) notes, this is a symptom rather than a cause of the crisis in Minsky's analysis. Hyman Philip Minsky's concept gained in popularity after the 2008 crisis because, in his analyses, the economic instability of modern capitalism and financial crises are immanent, even in times of apparent calm. In this context, the question that he asked in the early 1990s, about whether or not the financial structure in which a significant part of cash flow is spent on servicing debts will lead to a disaster similar to that between 1929 and 1933, turned out to be prophetic (Toporowski, 2017: 253).

Pumping public money into the financial sector could only give the impression of mastering the crisis, but it could not revive the economy and solve the actual causes of the crisis. Austerity measures are also not the way to revive the economy.[5] In his work from 1935 titled 'Istota poprawy koniukturalnej' ['The essence of an economic improvement'] about the 1930s crisis, Michał Kalecki criticised the solution used for getting out of the crisis, which was to decrease costs (in practice this means dismissing employees and lowering wages). As Kalecki (2015) wrote,

> [O]ne of the most characteristic features of the capitalist system is that what is beneficial for one capitalist is not necessarily beneficial for all capitalists together. If one employer lowers wages, ceteris paribus will be able to fully employ their workers; but if all employers reduce wages, the effect will be completely different. (p. 84)

Under such conditions, consumption decreases as a large section of society spends mainly on food and basic needs and not on more luxury products. Profits from reduced production costs are not necessarily spent on further investments or increasing employment. As the 1930s crisis showed, a sharp wave of wage cuts caused a significant drop in prices, not an increase in production. In general, if we look at Kalecki's concepts in the context of the 2008 crisis, his analyses remain fresh and up to date (cf. Żuk, 2017a).

The aim of monopoly capitalism, dominated by large corporations, is not to equalise opportunities and maintain socio-economic stability or ecological balance, but to maximise profits. Under the conditions of global monopoly capitalism, no socio-political forces are strong enough to effectively oppose and balance capitalist forces. Traditional trade unions and progressive political forces act within nation-states, and the latter are not an obstacle to transnational corporations. Today, corporations transfer their profits where tax rates are the lowest and do not invest where profits are obtained. In this way, individual countries are forced to compete by lowering profit tax rates.[6] Social welfare and welfare state institutions suffer from a shortage of resources. Measures applied after the crisis have only caused further enrichment of the financial elites and the risk that the crisis will continue to escalate.

According to Kołodko (2010), neoliberal capitalism creates the casino economy, in which 'the financial sector is separated from the real economic sphere and the general economy and society are subject to speculation'. This regularly leads to various speculative bubbles. In this sense, the collapse of the mortgage loan market was just a spark that

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caused a fire in the huge field of pathological neoliberal relations. The economy will not recover in the long run unless the rules of the game are changed and the institutional socio-economic order is rebuilt. Subsequent crises and bursting speculative bubbles are only a matter of time (p. 96).

As John Bellamy Foster and Robert W. McChesney (2012) conclude,

> There is no denying, however, that restoring the conditions for finance-led expansion has now become the immediate object of economic policy in the face of a persistently stagnation-prone real economy. The social irrationality of such a response only highlights the paradox of accumulation from which there is today no exit for capital. (chapter 1: 47)

In the social dimension, the crisis has hit social trust regardless of environment and social class. Reduced trust also affects the psychological dimension – it leads to stress, anxiety, a sense of helplessness, anger and rage (De Bondt, 2016: 305). The lack of trust in power and systemic rules has not only given rise to protest movements, such as Occupy Wall Street and the Spanish 15-M/Indignados (Fominaya, 2015), and a wave of protests and riots in Greece (Kanellopoulos et al., 2017), but it has generally lowered confidence in the rules of economics, politics and the existing models of collective life. In the long run, however, the crisis has caused a turn towards nationalism and populist right-wing movements in many places around the world.

Problems related to the legitimisation of the system and the atmosphere created after 2008 have been aptly described by Wolfgang Streeck (2016), who states,

> Neoliberal ideological narratives offer a euphemistic reinterpretation of the breakdown of structured order as the arrival of a free society built on individual autonomy, and of de-institutionalization as historical progress out of an empire of necessity into an empire of freedom. For the interregnum to continue, those living in it must be continuously exhorted to experience the debris of what was once a capitalist society as an adventure playground for them to demonstrate their personal resourcefulness and with good luck get rich. (p. 46)

Whether this reinterpretation will be adopted and the illusions accepted by public opinion is highly dependent on the middle class, whose status has been strongly undermined.

Political effects: Brexit, Trump, the far right and the awakening of nationalist 'demons' in Eastern Europe

In many parts of the world, the crisis and the growing atmosphere of uncertainty have caused a political need to point out those guilty for social problems. It has become clear again that, in the socio-economic chaos, it is easier to sell primitive explanations that point to the guilty: migrants, 'strangers', 'those disturbing our peace' and 'those who destroy our tradition and threaten our religion'. Abstract and complicated explanations about 'global capital', 'unlimited accumulation of capital' and impersonal investment funds are less popular. The advantage of the former stories is particularly significant when supported by corporate media that prefer to emphasise 'threats to national security' rather than the dangers of rising inequalities.

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This again brings to mind the atmosphere of the 1930s when slogans against international migration were spread in response to the crisis and 'the objections to speculation were racially based: speculators were identified as cosmopolitan, Jewish, or alien. Such racial identifying of the sins of speculation intensified with a geographic progression eastward across the European continent' (James, 2002: 188).

Although, as Marx claimed, history repeats itself, first as tragedy, then as farce, this history can be tragedy and farce at the same time. Nationalism did not always emerge as a spontaneous reaction of societies to the 2008 crisis. Nationalist narratives were also supported by some elites of national states. This is because

> unlike cosmopolitan-based solutions to global capitalism, nationalism is a position that can claim to be the only true opponent of globalism. It can mobilise support through the tried and tested alliance with the nation-state and its cultural forms of exceptionalism. (Worth, 2013: 72)

Therefore, we are observing Brexit instead of workers' struggles in the United Kingdom (UK) and Trump's foolish moves in the White House instead of panic on Wall Street.

From the beginning of the crisis, however, Wall Street was not concerned with what was happening on Main Street. The legend of the 'national community' that would stop the 'chaos flowing from abroad' was used to calm down people from Main Street who felt a sense of helplessness and loss. This process took place not only in the US (which succumbed to the 'protection' of Trump's isolationism), the UK (where social uncertainty turned into a fear of immigrants and led to Brexit) and Western Europe, where the far right began to gain in power. The upsurge of nationalism also spread across Eastern Europe, where 30 years of neoliberal transformation, growing social inequalities and the weak left have created perfect conditions for the victory of right-wing populism (Żuk, 2017b). Hungary, led by Viktor Orban, and Poland, ruled by the Law and Justice (PiS) party and its leader Jarosław Kaczyński, are symbols of the 'national counter-revolution' that has emerged from the neoliberal chaos (Żuk and Żuk, 2018).

Moreover, this wave of nationalism does not affect neoliberalism. Quite the opposite: anti-immigrant sentiments (cf. Żuk and Żuk, 2017), increased authoritarianism of the state and criminalisation of independent civic activity mask neoliberal mechanisms and hide them behind the national flag and patriotic jargon. In this context, capitalism disguised in national colours allows the local power elite to acquire assets in return for protecting the interests of transnational capital (Magyar, 2016). In this way, nationalism, which directs social anger towards immigrants, refugees and Muslims, becomes a lightning rod that protects the neoliberal order and diverts public attention from the actual reasons for social insecurity and frustration.

This is not a new phenomenon in post-communist countries. From the beginning of the transformation in the 1990s, substitute 'enemies' were sought so that people would not criticise the mechanisms of neoliberal economics for class reasons. Only the 'enemies' created by the media are new today. In the 1990s, these were mainly crypto-communists and 'people of the old system'. Today, former anti-communist slogans have been replaced by Islamophobic propaganda, which attacks immigrants and Islamic 'terrorists'. All this enables the state-protected tycoons to continue their businesses and keeps the political and economic system unchanged.

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Social resistance

In the mainstream of politics, the left does not have a comprehensive alternative to the dominant global trends. One can get the impression that the progressive forces deprived of the ballast of Stalinism have not been revived in the 30 years that have passed since the fall of the Eastern bloc and the Soviet version of socialism. The European parliamentary left groped for its own place in the new world conditions. The concept of Blair's or Schröder's 'third way' led the left completely astray (Kowalik, 2003). Furthermore, attempts to free South America from the power of neoliberalism ended up in a right-wing offensive, the symbol of which was the removal of the Workers' Party from power in Brazil.

Taking account of the current advantage of corporate media, which effectively holds people in check, over the counter-opinions of the lower classes, problems with understanding the current chaos and noticing possible socio-economic alternatives seems to be another barrier to the introduction of progressive changes. In this respect, the situation is worse for the working class than it was in the 19th century or during the crisis in the 1930s. At that time, the workers' movement fighting against capitalist forces did not have the additional powerful enemy that it has today – then the 'cultural industry' was just beginning to build its power.

Furthermore, the contemporary anti-capitalist alternative symbolised by the alter-globalist movement, which revealed itself to the world in Seattle in 1999, also weakened considerably. As Harvey (2010) writes,

> [A] global anti-capitalist movement is unlikely to emerge without some animating vision of what is to be done and why. A double blockage exists: the lack of an alternative vision prevents the formation of an oppositional movement, while the absence of such a movement precludes the articulation of an alternative. How, then, can this blockage be transcended? The relation between the vision of what is to be done and why, and the formation of a political movement across particular places to do it, has to be turned into a spiral. Each has to reinforce the other if anything is actually to get done. Otherwise potential opposition will be for ever locked down into a closed circle that frustrates all prospects for constructive change, leaving us vulnerable to perpetual future crises of capitalism, with increasingly deadly results. (p. 227)

In general, the distribution of social forces in the world 10 years after the global crisis looks like that which existed after the triumph of counterrevolution, which crushed folk revolts in 1848 in Europe and threatened all contemporary progressive forces against even thinking about changing the social order (cf. Foster, 2017). However, history continues to move forward and the situation is very dynamic, despite appearances. As Walter Scheidel points out, mankind used various means to solve social inequalities in the past: either states and empires, which always favoured the accumulation of capital, collapsed, or humanity had to struggle with plagues and epidemics (their modern equivalents may be ecological disasters), thus levelling life chances, or wars broke out, or, driven to the wall, lower classes triggered revolutions (cf. Scheidel, 2017). The fact that the circumstances are different today does not mean that these historical solutions are no longer valid. Can they be dismissed by creating a framework for sustainable development? Is it possible to repair the existing order? Stiglitz (2012: chapter 10) suggests the following solutions: curbing the financial sector; improving corporate governance, especially by limiting the

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power of the CEOs to divert so much corporate resources for their own benefit; ending corporate welfare, including hidden subsidies; creating a more progressive income and corporate tax system; and strengthening other social protection programmes.

However, the practice of monopoly capitalism goes in a completely different direction. Can a global agreement be made to stop the current trends? What would that look like?

Failure to reform global economic governance architecture

The 2008–2009 GFC revealed that the world economy is much more integrated than it was just a few decades ago, led more by finance than trade, making countries more vulnerable to financial contagions, policy 'spillovers' and economic imbalances. It also revealed systemic vulnerabilities of the global economic governance architecture – the Bretton Woods system, built after the World War II – with the centrality of the US for its stability and credibility.

As a matter of fact, the Bretton Woods system was under strain since the mid-1960s due to higher US inflation as President Johnson decided not to fund the unpopular Vietnam War through higher taxes, but by issuing debts. The Bretton Woods system finally collapsed when the Nixon administration unilaterally decided to withdraw US commitment to gold convertibility of the US dollar in August 1971. Becoming a paper currency, since then the US dollar flooded the world, and what emerged is a 'non-system', according to Robert Triffin (1968), a foremost international monetary economist of his generation.[7]

Critics have identified three basic flaws of the current system (see, for example, Ocampo, 2015). First is the 'recessionary bias'. This arises from the asymmetric burden of adjustment to payments imbalances between deficit and surplus countries, as the former must adjust, especially when financing dries out during crises, whereas surplus countries do not face a similar pressure to correct their imbalances. Second is the 'Triffin dilemma'. This arises from the use of national currency (in this case the US dollar) as a major reserve or global currency. The provision of international liquidity requires that the country (the US) supplying the reserve currency run balance-of-payments deficits, which may erode the confidence in that currency. This also ensures 'spillover effects' of the US monetary policy on other countries. Third is the 'inequity bias' generated by the need of emerging and developing countries to 'self-insure' against strong boom–bust cycles of global finance by building up large foreign exchange reserves, as demonstrated since the 1997–1998 Asian financial crisis. Such precautionary measures enabled the emerging economies to undertake countercyclical measures, especially during the 2008–2009 GFC. But these have huge social opportunity costs as these reserves are generally invested in low interest perceived safe assets, such as the US treasury bonds whereas they could have been used in much-needed social and economic infrastructure. Thus, precautionary reserve accumulations by developing countries are lending to rich countries at low interest rates (Ocampo, 2015). As Triffin highlighted during the 1980s debt crisis, the 'international monetary system is at the root of this absurdity' (cited in Teunissen, 2009).

In 1974, the United Nations (UN), led by developing countries, called for a radical 'New International Economic Order' (NIEO), in which developing countries would have legitimate sovereignty over their natural resources, greater control of multinational

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corporations' activities, fairer access to developed country markets and adequate transfer of resources from the developed world to fulfil their development aspirations (UN, 1974). On international economic governance, the Programme of Action called for measures to eliminate the instability of the international monetary system, in particular the uncertainty of exchange rates, especially as it adversely affects commodity trade, for maintenance of the real value of the currency reserves of developing countries. It also called for the full and effective participation of developing countries in all decision-making in all bodies, including the IMF and the World Bank, and in formulating an equitable and durable monetary system, adequate and orderly creation of additional liquidity for developing countries' needs through the additional allocation of special drawing rights (SDRs) in the light of the new international environment, and emphasised that any creation of international liquidity should be made through inclusive multilateral mechanisms.

Unfortunately, what emerged since the late 1970s is an anti-thesis of global economic governance architecture envisaged in the call for an NIEO. The neoliberal counterrevolution of the 1980s opened the door for corporate globalisation (Roy, 2005) or 'globalization under hegemony' (Jomo, 2006) which shaped the need to dismantle barriers to international trade, foreign direct investment, international finance or intellectual property rights, in the interest of powerful corporations.

Every financial crisis led to calls for reform of the international financial architecture, but the appetite for radical reform receded considerably with the recovery.[8] It is no different in the case of 2008–2009 GFC. The renewed call for the reform of the global economic governance architecture in the wake of the GFC, especially from the 2009 'UN Conference on the World Financial and Economic Crisis and Its Impact on Development',[9] included reform of the governance of the IMF and the World Bank, on the basis of a fair and equitable representation of developing countries, to improve the credibility and accountability of these institutions and to reflect current realities of the emerging economies in the global economy. There is also consensus that the international financial institutions should be reformed to better enable them to respond to the financial and economic challenges and to meet the needs of member states. The developing countries also called for a 'multilateral legal framework for sovereign debt restructuring' through a UN General Assembly (UN-GA, 2014) resolution.[10]

However, the developed world dragged on and the US Congress was unwilling to approve the agreed limited quota reform of the IMF until very recently, even though the prospects for global financial governance reform seemed promising following the first G20 summit in November 2008.[11] The promises made in 2008 were repeated at successive G20 summits and in other international fora. Yet, the promised reforms have only been partially implemented, resulting in limited changes in global financial governance architecture, still dominated by advanced countries, in particular the G7 countries, thus undermining its legitimacy.

Meanwhile, developed countries effectively killed the Doha Development Round of the World Trade Organisation (WTO) by insisting to renegotiate the settled matters and opting for bilateral and regional free trade deals, the most prominent of which is the Trans-Pacific Partnership. These are weak substitutes for multilateral deals, not least because they are often one-sided agreements written by the strongest signatory. While the Obama administration undermined trade multilateralism by its unwillingness to

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honour the compromise which initiated the Doha Development Round, President Trump's preference for bilateral agreements benefitting the US is unlikely to provide the boost to multilateralism so badly needed now.

Ahead of the 2016 annual spring meetings of the IMF and the World Bank, US Treasury Secretary Jacob Lew said that it was necessary to have reforms to modernise the international economic architecture set up after World War II. But the aim, in his opinion, is to preserve and strengthen his country's position and secure benefits for the US. While not surprising, it ignores the fact that emerging economies and developing countries are still under-represented in the global financial architecture, even though the US Congress finally approved a much delayed limited set of IMF's quota reforms in 2015 and the IMF has recently agreed to include the Chinese renminbi in the SDR basket.

Thus, the failure to reform the global economic governance architecture to make it more inclusive and democratic, and hence more accountable and credible, does not bode well, especially when the world has become more integrated, the debt levels surpassed many-folds of the pre-GFC peaks, and the US Fed and the European Central Bank created asset price bubbles with their unconventional monetary policy in an attempt to prop up their faltering economies. Consolidating US dominance can only worsen the situation.

Rising debt and increased vulnerability

The availability of easy money meant rising household and corporate debt that fuelled housing and financial asset price bubbles. According to the IMF (2018a), global debt levels reached a historic peak of USD164 trillion in 2016, amounting to 225% compared to 125% of global GDP pre-GFC as global economic growth remains tepid. The Institute of International Finance (IIF, 2018b) reported that debt held by Group of Seven (G7) industrialised nations and the majority of emerging market economies rose to a record USD247 trillion in the first quarter of 2018, amounting to 318% of their GDP.

Rising debt levels pose serious downside risks for the global economy. The problem is compounded by non-transparent cryptocurrencies and shadow banking. As the domino effect spreads through debt defaults with further rises in interest rates while income growth remains subdued, the world is likely to plunge into a catastrophic financial crisis for a number of factors.

In the meantime, policy space to respond to a crisis in both developed and developing countries has diminished significantly since the GFC. Most developed country governments are saddled with debt as it reached an all time high due to bail out of 'too big to fail' financial institutions and failure to generate robust recovery. According to the IMF's April 2018 *Fiscal Monitor* (IMF, 2018a), average public debt for advanced economies stood at 105% of GDP in 2017, constraining their ability to respond to any future crisis. At the same time, their monetary policy has hit its limit after a decade of an extraordinarily lax stance.

The IMF (2018a) also reported that general government debt-to-GDP ratios in emerging market and middle-income economies reached almost 50% in 2017 – a level seen only during the 1980s debt crisis. For low-income developing countries, it exceeded 40% in 2017, climbing by more than 10 percentage points since 2012. Public debt-GDP ratios in emerging and developing economies (EDEs) are likely to trend upwards due to falling commodity prices and almost stagnant global trade.

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Implications for developing countries

EDEs witnessed large inflows of short-term capital as they offered higher returns than the US or other advanced economies following their near-zero interest rate policy. Thus, the external debt burden of emerging economies grew rapidly to an estimated amount of over USD40 trillion during the decade of loose monetary policy in the developed world since the GFC. The combined debts of a group of 26 large emerging markets rose from 148% of GDP at the end of 2008 to 211% in September 2017, according to the IIF (2018a). Now that the period of easy money is nearing its end, and as the US continues its 'normalisation' of monetary policy by raising the policy interest rate, emerging economies are witnessing capital flights back to the US, putting pressure on their currencies.

Investment rates in EDEs have been either declining or stagnant since 2010. This means these economies are now much weaker as their productive capacity suffered significantly since the GFC. With rising debt levels, EDEs have very limited fiscal space for discretionary countercyclical measures, while they have almost no monetary policy independence due to their deepened global financial integration.

Meanwhile, recent commodity price drops have accelerated the rising indebtedness of low-income countries. According to the IMF, 24 out of 60 (40%) are now either already facing debt crises or are highly vulnerable – twice as many as 5 years ago, with a few already seeking fund bailouts (IMF, 2018b).

The problem is compounded by declining concessional aid from OECD countries. Also, more creditors are not part of the Paris Club, obliged to deal with sovereign debt on less onerous terms. Meanwhile, growing trade and currency conflicts are worsening the woes of those already worse-off.

GFC+10 special issue

The special issue of *The Economic and Labour Relations Review* discusses certain issues outlined above in more detail. Anthony Gould and Milène Lokrou review the proximate causes that led to the crisis in 2008 but argue that the distal factors were more consequential for the unfolding of the crisis. They use the medical/biological analogy of a heart attack which is triggered by 'over-exertion', while the underlying cause is a long-term process of atherosclerosis that narrows or partially blocks a coronary artery. In the case of the GFC, Gould and Lokrou refer to the consensus that the housing and credit bubbles in certain American cities in the preceding years were key trigger events. These pre-2008 bubbles arose from a confluence of atypical elements, such as an absence of appropriate oversight and prudential supervision by regulators, improvidence and lack of planning on the part of stakeholders in the financial services and real-estate sectors and, in certain cases, corrupt and duplicitous business practices by the same parties.

However, Gould and Lokrou argue that an obscure interaction between two sets of incongruous variables created much of the context for the 2008 GFC. The crisis would not have happened in the absence of one of the sets of variables. The first set concerns neoliberalism, an approach to governance that promotes the market solution as the default way of solving social and economic problems and a concomitant marginalisation of the state and regulatory oversight. The second set of variables is the retreat from key

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laudable priorities of the New-Deal era, such as repeal of the Glass–Steagall Act that separated investment and commercial banking activities. There were merely intermittent legacy commitments to the New-Deal era, such as President Carter's 1977 Community Reinvestment Act or the Bush Administration's 2003 push for tighter scrutiny of housing loan financing arrangements, or attempts to keep interest rates low. Regardless of their salutary intentions, these sporadic measures were unable to provide the kind of safety net or checks and balance that were in place during the golden age prior to the stagnation of the 1970s.

Gould and Lokrou summarise their central thesis with a single proposition: neoliberalism in circumstance of haphazard/intermittent concern about poor/low-income people creates a potent cocktail for bringing about a 2008-style financial crisis. Thus, they conclude, 'piecemeal emphasis on aiding people who are not prosperous is likely to occasion an atypical-style housing bubble when enacted in a milieu of otherwise unfettered deregulation and widespread application of the market principle'. By implication, what is needed is an active state that regulates markets for the prosperity of general masses. Absent this, rising income inequality and concentration of wealth amid increased household indebtedness make the global economy increasingly vulnerable to financial crises.

C.P. Chandrasekhar and Jayati Ghosh discuss how the initial use of the fiscal lever led to a V-shaped recovery and the subsequent exclusive reliance on monetary policy caused faltering growth rate, bordering stagnation which seems to have become a 'new normal'. They observe that over time, the policy stance in the core advanced economies effectively moved away from the initial focus on tighter regulation of financial activities that would prevent damaging economic crises in future. Ironically, thus, policies designed for 'recovery', or for addressing the Great Recession, have increasingly contributed to re-creating the conditions that had preceded the crisis, albeit in slightly modified form.

Chandrasekhar and Ghosh arrive at this conclusion by analysing how the availability of cheap liquidity allowed finance to expand credit and invest in asset markets, resulting in the resumption of unsustainable debt accumulation and asset market price inflation in developed and developing countries. As a result, the global economy faces vulnerabilities similar to, or even higher than, those that prevailed prior to the financial crisis of a decade earlier. Chandrasekhar and Ghosh argue that monetary policy remained loose, despite its role in fuelling asset market speculation, because depressed demand kept inflation under control. A further consequence of these processes is a massive increase in income and wealth inequality across the world, which limits the level of effective demand and growth.

Chandrasekhar and Ghosh also examine the implications for developing countries, which still bear scars of the GFC in the form of lower growth and lower investment rates a decade later. They thus question the hypothesis of 'decoupling' of growth of developed and developing countries, advanced by Bretton Woods Institutions. They argue that developing countries not only have become more integrated with developed countries, their policies such as fiscal conservatism (or consolidation) have also converged, making developing countries more vulnerable.

Yılmaz Akyüz expands the arguments of Chandrasekhar and Ghosh and holds that the exceptional monetary measures in response to the financial crisis in advanced economies failed to achieve a strong recovery, leading to a chronic demand gap and raising

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the prospect of prolonged growth stagnation. Critically reviewing various explanations for stagnation, he argues that growing inequality, notably the secular decline in the share of wages, and financialisation are the main factors for underconsumption and hence growth stagnation.

Akyüz believes that neither spending booms driven by financial bubbles nor trade are sustainable solutions to overcome the problem of chronic underconsumption. Debt financed consumption booms have to collapse when wage growth either remains stagnant or falls, while EDEs outside China cannot provide an adequate outlet for developed countries collectively without compromising their own industrialisation and development. Therefore, according to Akyüz, it is necessary to rebalance capital and labour, restrain finance and assign a greater role to the public sector in aggregate demand management and income and wealth distribution.

However, like Gould and Lokrou, Akyüz argues that the dominant neoliberal ideology rules out such socially progressive and economically effective solutions. Therefore, according to him, growth stagnation is likely to remain the new normal for a long while. Meanwhile, attempts by governments of advanced countries to reignite growth by creating credit and asset bubbles and/or trying to export unemployment through beggar-thy-neighbour macroeconomic, labour market, trade and exchange rate policies generate financial and economic instability and tensions in international economic relations.

According to Akyüz, these will have significant repercussions for EDEs. Because these economies have become more integrated with the developed world since the GFC, their external debt levels are much higher now and there are greater presence of foreign entities in their financial sector. Thus, not only has developing countries' vulnerability increased, their policy space to respond to a crisis also has diminished significantly.

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Notes

1. See Chowdhury et al. (2013) for a comprehensive account of social impacts of the global financial crisis (GFC). They argue that the situation was made worse by the obsessions with fiscal consolidation in the midst of tepid and uncertain recovery, thus highlighting the fact that policies matter.
2. European Central Bank (2016). Annual Report. Available at: https://www.ecb.europa.eu/pub/annual/html/ar2016.en.html#IDofChapter1_2_1_Box5
3. Cited by Hartley (2015).
4. See, for example, UBS/PwC (2017a) and accompanying press release (UBS/PwC, 2017b).
5. See Chowdhury and Islam (2012) for a critical assessment of the key empirical evidence used to support the fiscal consolidation argument, and a brief assessment of the limitations of the analytical foundation of the growth promoting benefits of the fiscal consolidation thesis.

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6. According to the International Monetary Fund (IMF), the average corporate income tax rate dropped from about 31% in the mid-1990s to 26% in 2007. The pattern holds for all regions (advanced, emerging and low-income economies) as well as when using medians. See IMF (2017).
7. Robert Triffin made forceful arguments from the 1950s onwards for a more stable international monetary system plagued less by crises. In 1985, 3 years after the debt crisis broke out in Latin America, leading to the continent's 'the lost decade', Triffin, in a report prepared for a US Congressional Summit on Exchange Rates and the Dollar, argued, 'We should resume negotiations for a fundamental reform of the world monetary system – or non-system – that is anchored primarily on a national, paper reserve currency, that is, the dollar'. A key element of such fundamental reform would be to anchor the system on a truly international reserve asset held with the IMF, and not on the dollar or any other national currency used as a reserve currency. Triffin mentioned three major reasons for his argument. First, 'because of its fantastic inflationary proclivities, leading to world reserve increases eight times as large over a brief span of fifteen years as over all previous years and centuries since Adam and Eve'. Second, 'because of its skewed investment pattern of world reserves, making the poorer and less capitalised countries of the Third World the main reserve lenders, and the richer and more capitalized industrial countries the main reserve borrowers of the system'. Expressed in stronger words,

   > the richest, most developed, and most heavily capitalized country in the world should not import, but export, capital, in order to increase productive investment in poorer, less developed, and less capitalized countries. I have long argued that our international monetary system is at the root of this absurdity.

   And third, 'because of its crisis-prone propensities reflected in the amplitude of the present world debt problem' (cited in Teunissen, 2009).
8. See Park and Wang (2011) for a discussion of reform proposals in the wake of the 1997–1998 Asian financial crisis. See Helleiner (2009) for a discussion of some of the reform proposals during the GFC and lessons from the past.
9. Held in New York, 24–30 June. The outcome document adopted by UN General Assembly (UN-GA, 2009) resolution is available at http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/63/303&Lang=E; see paragraphs 42–50.
10. The resolution was triggered by the aggressive vulture funds lawsuits against Argentina at a provincial court in the US state of New York (e.g. *NML Capital, Ltd. v. Banco Central de la Republica Argentina* 652F.3d 172 (2d Cir. 2011) and *NML Capital, Ltd. v. Republic of Argentina*, 727F.3d 230 (2d Cir. 2013)). Judge Thomas Griesa ruled in favour of the *NML Capital*, 'vulture fund' holdout creditors who bought Argentina's debt from 8% of its bondholders at a significant discount when in 2001 Argentina took the unusual step of unilaterally defaulting on its entire USD100 billion debt, but refused to accept any losses when the government negotiated a debt swap in 2005 at a 70% 'haircut'. The court ruled that Argentina could not pay the 92% of creditors who accepted big reductions in the amount they were owed unless it also paid the litigant 'holdouts' the full value of their original claims plus interest.
11. The G20 leaders, in the Declaration and accompanying Action Plan, called for reforms in the governance of the key global financial institutions such as the IMF, the World Bank and the Financial Stability Forum. These reforms included changes in the allocation of quotas and votes in the IMF, changes in the composition of the Boards of Directors of the IMF and the World Bank, changes in the services provided by these institutions and reforms in the selection procedures for their chief executive officers. They also agreed to expand the membership of the Financial Stability Forum (eventually reconstituted as the Financial Stability Board) to include all G20 member states and to enhance its status and its role in the global financial governance architecture.

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