THE STAGES OF THE DOMINATION OF FINANCE OVER CONTEMPORARY SOCIETIES

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INTRODUCTION

1. After WWII the governments acquired the power and legitimacy to organize an administered financial system in order to promote growth and prosperity . In democratic regimes the governments were supposed to respond to citizens demands.
2. Today many governments have to comply with the demands by international finance and multinationals and they have to impose some decisions against citizens' will. Does it mean the open conflict between capitalism and democracy?

INTRODUCTION

3. This presentation proposes
   - a historical analysis of the complex process that led to this reversal in the distribution of power in contemporary societies.
   - a tentative theory explaining the origins of financiers power.
   - tools in order to build scenario in order to overcome such a perilous juncture.

SYNOPSIS

I. A LONG TERM VIEW OF CREDIT.

II. MATURE ECONOMIES: A FOUR ACTS DRAMA.

III. IN SEARCH FOR INTERPRETATIONS

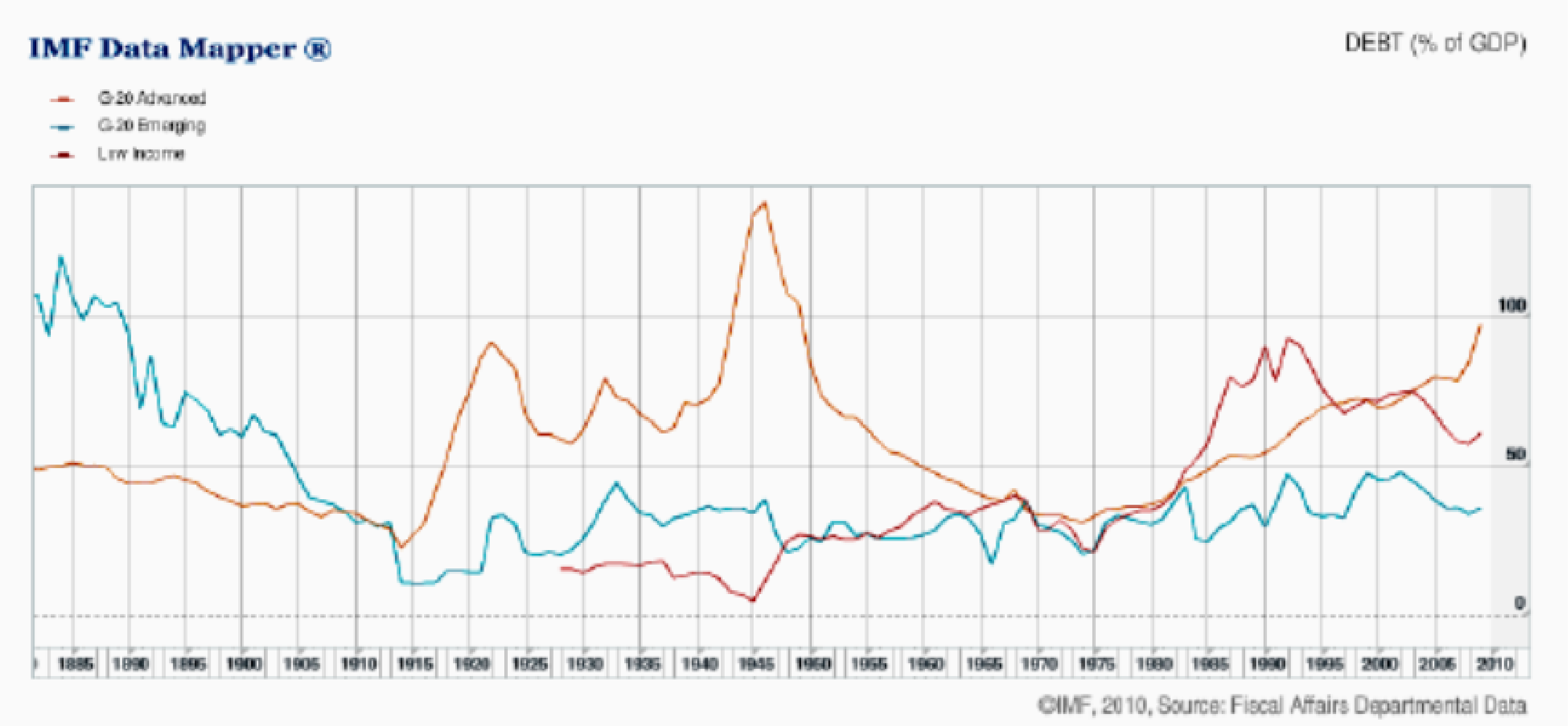
IV. WHAT DOES COME NEXT?

I - A LONG TERM VIEW OF CREDIT

1. Three different trajectories.

Figure 1 – Debt-to-GDP Ratios Across Country Groups, 1880-2009

(Group PPPGDP-weighted average, in percent of GDP)

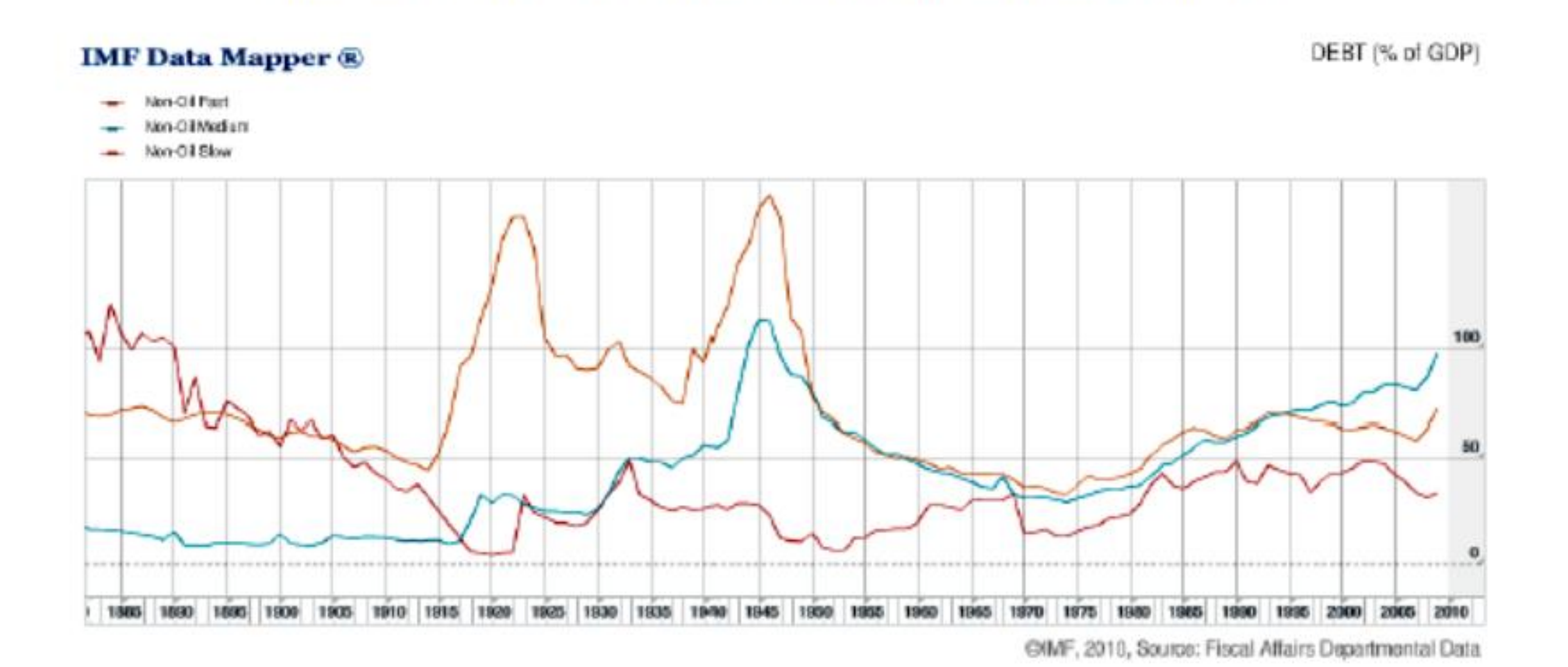


Source: IMF Working Paper Fiscal Affairs Department A Historical Public Debt Database Prepared by S. Ali Abbas, Nazim Belhocine, Asmaa El Ganainy, and Mark Horton1 Authorized for distribution by Mark Horton November 2010

2. The growth slow down exacerbates the rise of debt/GDP ratio.

Figure 2 – Fast Growers Maintained Low Public Debts

(PPP-GDP weighted average debt-to-GDP ratios by country groups)

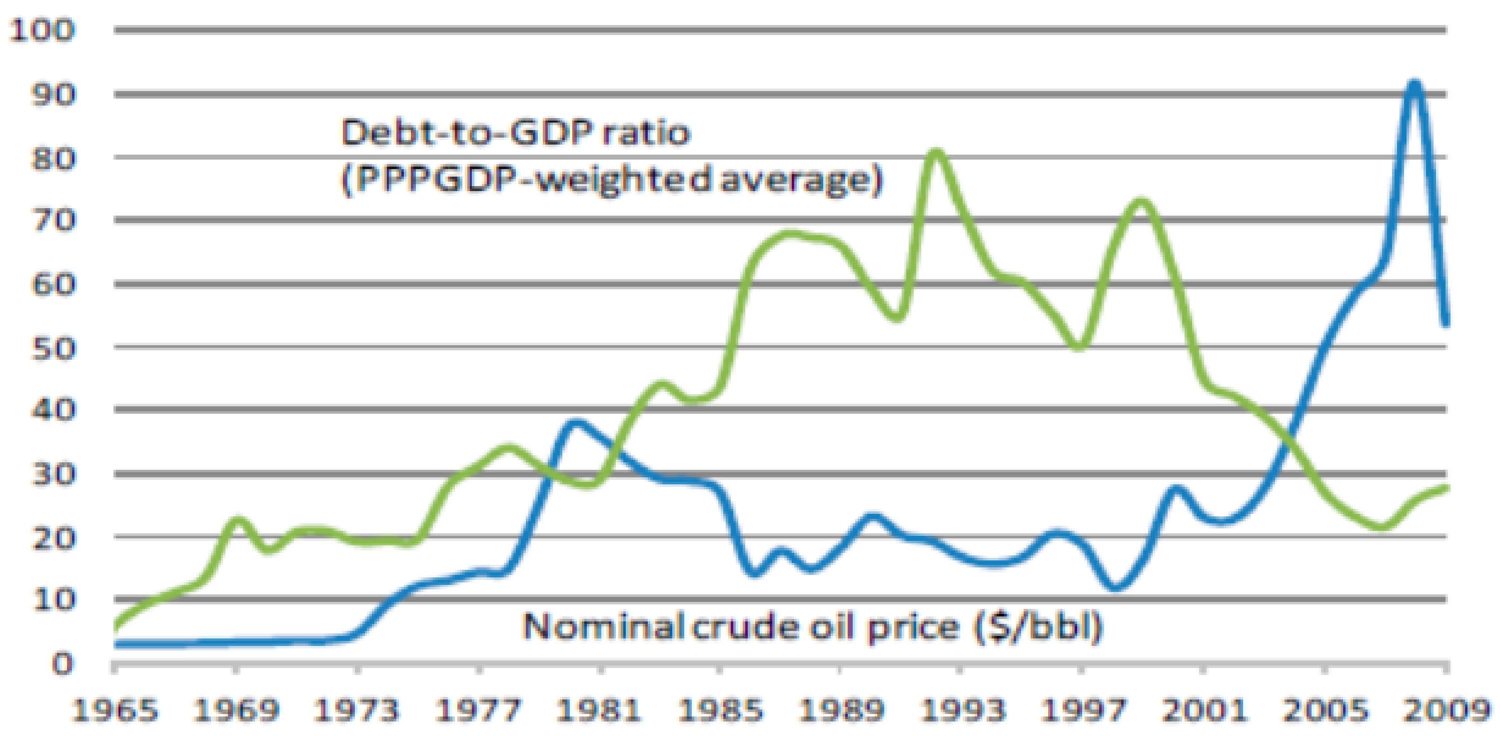


Source : IMF Working Paper Fiscal Affairs Department A Historical Public Debt Database Prepared by S. Ali Abbas, Nazim Belhocine, Asmaa ElGanainy, and Mark Horton1 Authorized for distribution by Mark Horton November 2010

3. The commodity producers are outliers

Figure 3 – Commodity Prices and Public Debt, the Case of Oil Producers

(Debt ratios in percent of GDP, oil prices in $/bbl)



Oil producers include: Norway, Bolivia, Ecuador, Mexico, Venezuela, Trinidad and Tobago, Bahrain, Iran, Kuwait, Oman, Qatar, Saudi Arabia, Syria, United Arab Emirates, Yemen, Brunei Dar-us-Salaam, Indonesia, Vietnam, Algeria, Angola, Cameroon, Chad, Republic of Congo, Equatorial Guinea, Gabon, Nigeria, Sudan, Azerbaijan, Kazakhstan and the Russian Federation.

Source: HPDD; and crude oil price data is from http://inflationdata.com/inflation/inflation_rate/historical_oil_prices_table.asp

II - MATURE ECONOMIES: A FOUR ACTS DRAMA

1. The surge of public debt: postponing structural adjustments : after the crisis of the golden age.

2. The consequence of financial liberalization: the rise of firms' private debt.

3. After the internet bubble, a credit fueled real estate bubble

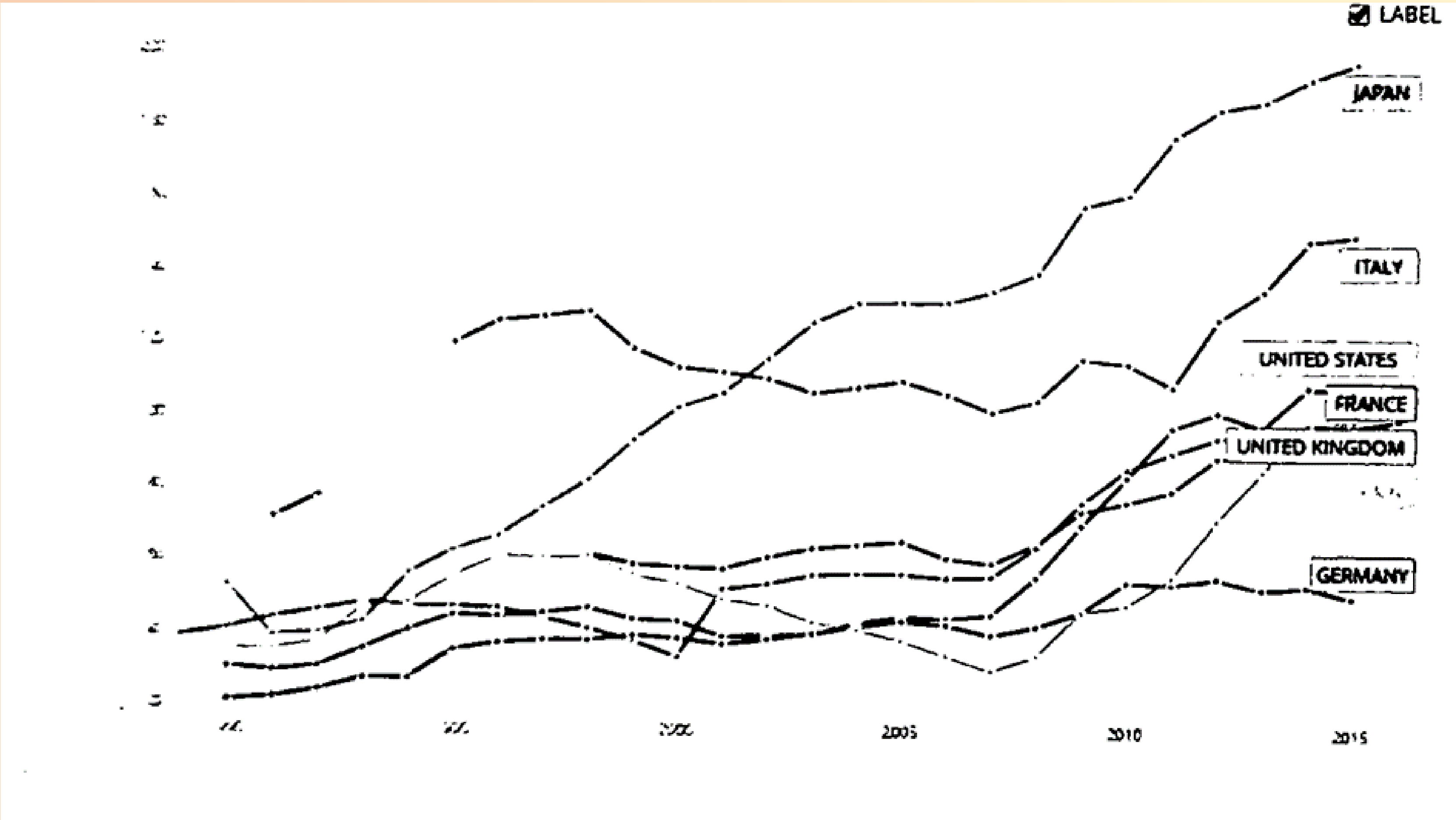
Table 1 – Private debt of non-financial agents /PIB (4th quarter of year year)

ys :	Germany	Spain	France	Italy	Euro zone	United-Kingdom	Japan	United States
2016	90,8	138,2	127,9	111,6	122,5	148,3	146,8	149,9
2015	90,2	146,5	124,0	113,5	123,8	145,5	145,5	147,7
2014	91,2	157,4	121,0	116,3	123,5	145,5	149,0	146,9
2013	94,7	166,4	120,1	116,5	127,8	153,3	160,1	143,9
2012	94,4	178,6	120,0	119,1	130,6	163,8	159,2	145,2
2011	95,3	188,6	117,2	118,5	133,1	160,6	160,7	147,8
2010	99,2	194,6	114,4	119,2	135,3	161,0	158,7	152,8
2009	104,4	194,8	113,2	117,8	137,0	175,0	166,6	160,7
2008	101,9	190,0	104,9	112,5	131,9	167,1	161,1	162,0
2007	103,2	185,2	98,9	108,5	127,9	163,2	155,4	162,2
2006	107,6	171,8	96,4	100,5	123,6	161,9	157,6	155,8
2005	111,2	149,2	93,6	94,7	119,3	156,5	159,2	149,5
2000	118,9	99,2	87,0	75,1	110,1	126,4	185,6	130,4

Source des données : Banque de France[3]

4. The bailing out by public authorities: again the rise of public debt

Figure 4 – The evolution of public debt/GDP ratio for selected economies

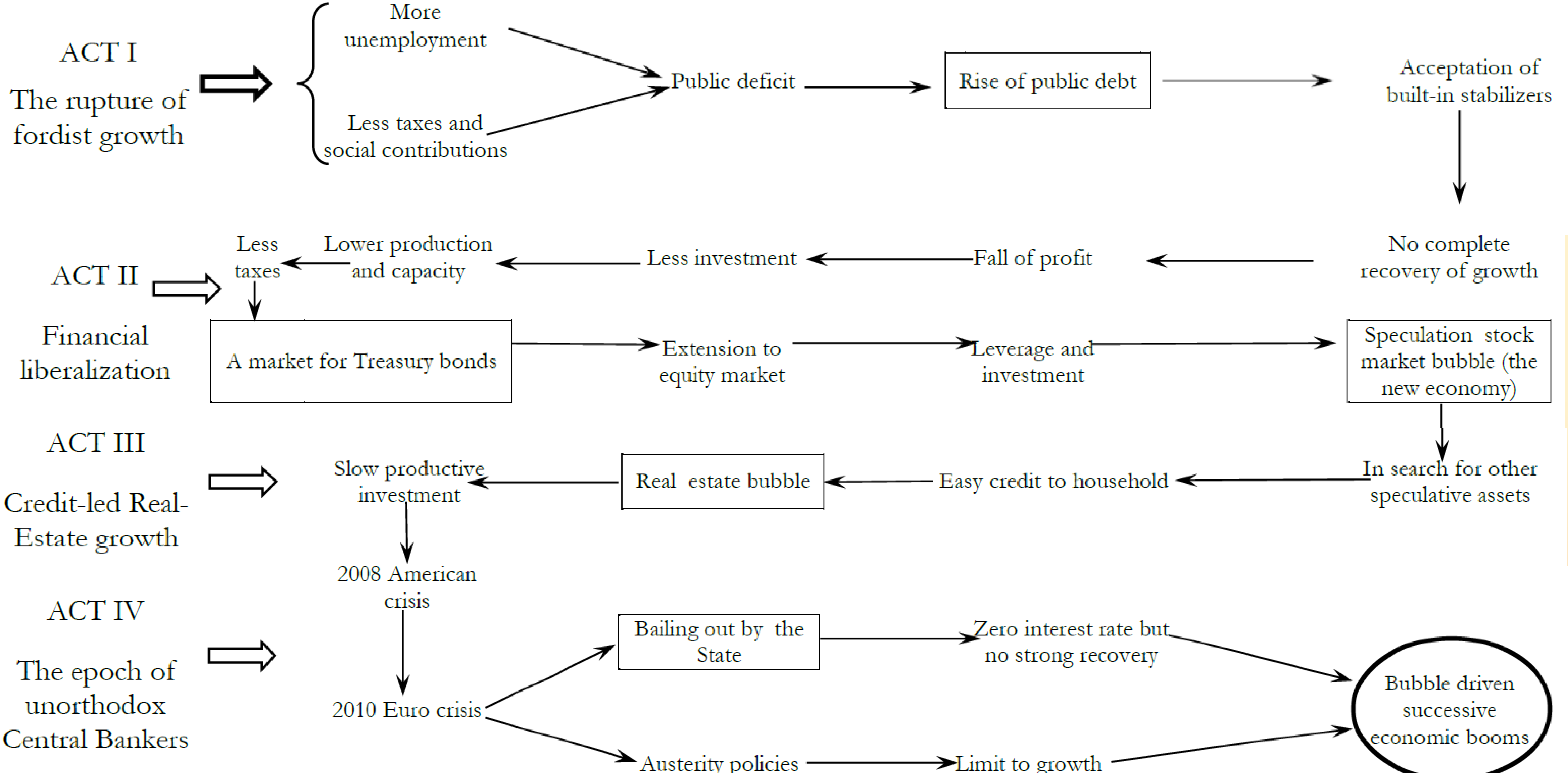


Source: Extracted from IMF data bank on public debt https://www.imf.org/en/Publications/WP/Issues/2016/12/31/A-Historical-Public-Debt-Database-24332

5. An unchartered territory: how to exit from a zero interest rate monetary policy.

6. From one credit boom to another.

Figure 5 – A synoptic presentation of the path to finance domination over societies



III - In search for interpretations.

1. The consequence of a series of silent decisions (François Julien):
   - Liberalization of finance gives new opportunity to large firms to disconnect profit from reinvestment in domestic productive capital.
   - Opening of an international market for Treasury bonds is initially perceived as beneficial : lower cost for public debt financing.
   - Only with the change in the strategies of firms, have the wage earners to experience labor flexibility in order to stabilize ROE.
   - A major difference with the upheaval during and after WWII

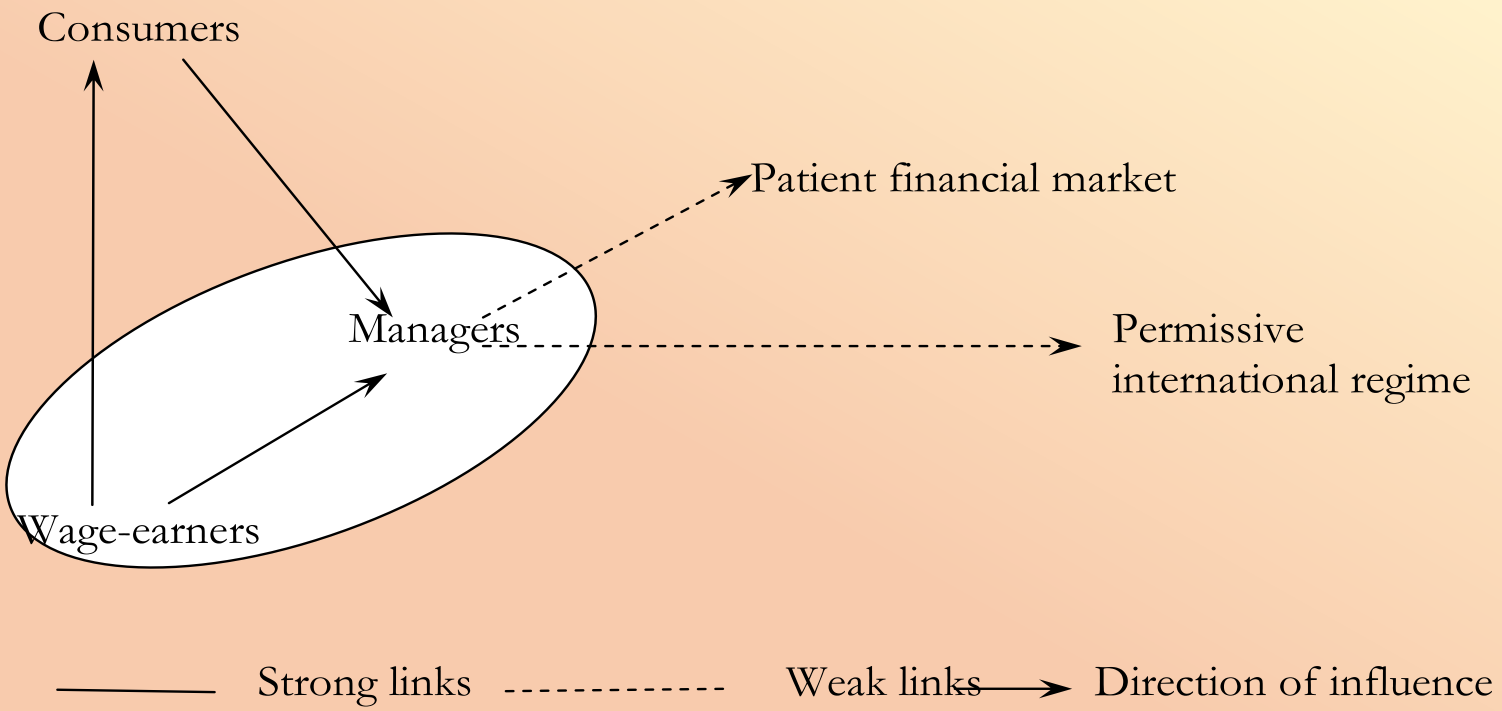
2. A spill over from one institutional form to another.

Changes / Institutional Forms	Initial situation	Partial / Local changes	Reaction to initial change	Second wave of reaction	Changing the dominant bloc	Readjustment of all: dominant bloc and institutional configuration
Wage Labor Nexus	Institutionalized	Institutionalized	Fragmentation	Erosion of protections	Dominated	**Financialized**
Form of competition / Corporate governance	Oligopolistic at the domestic scale	Openness to international competition	new governance firms	Consolidation of this governance	Shareholder value	**Competition in the capital market**
Financial regime	Administered	Administered	Beginning of liberalization	External liberalization	internal liberalization	**Wage labor nexus, social security and economic policy under the control of finance**
Dominant groups	Agreement employees / entrepreneurs	Agreement employees / entrepreneurs	Weakening of employees	Loss of workers' influence within the alliance	A new alliance enterprises / finance	**Stabilization of the alliance enterprises / finance**
Dominated group	**Financial**	**Financial**	**Financial**	**Financial**	**Employees**	**Employees**

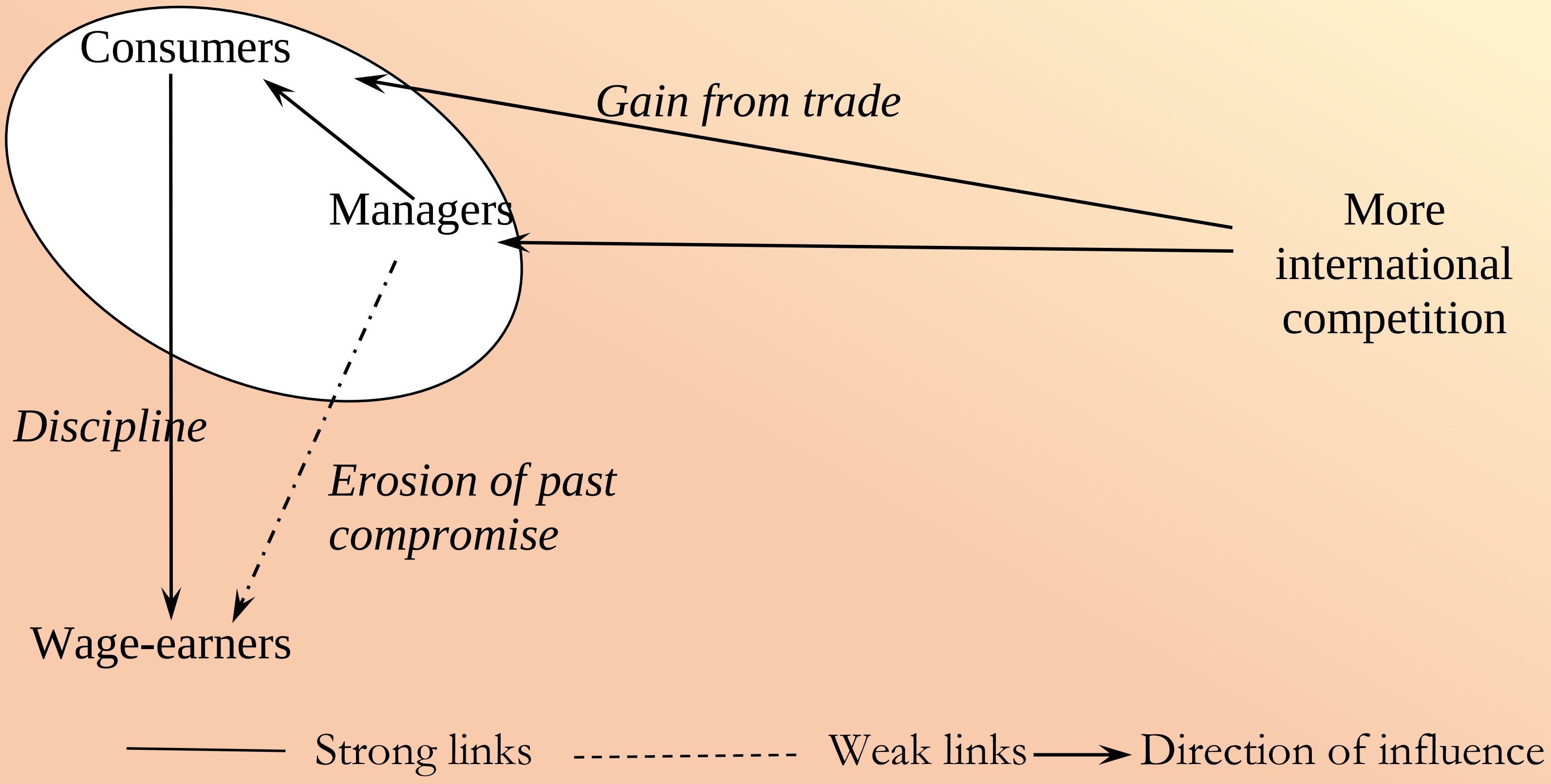
Source: Compiled from the analytical framework of Bruno Amable (2003), p. 66 to 73.

3. A major irreversibility in the hierarchy of institutional forms and related hegemonic bloc

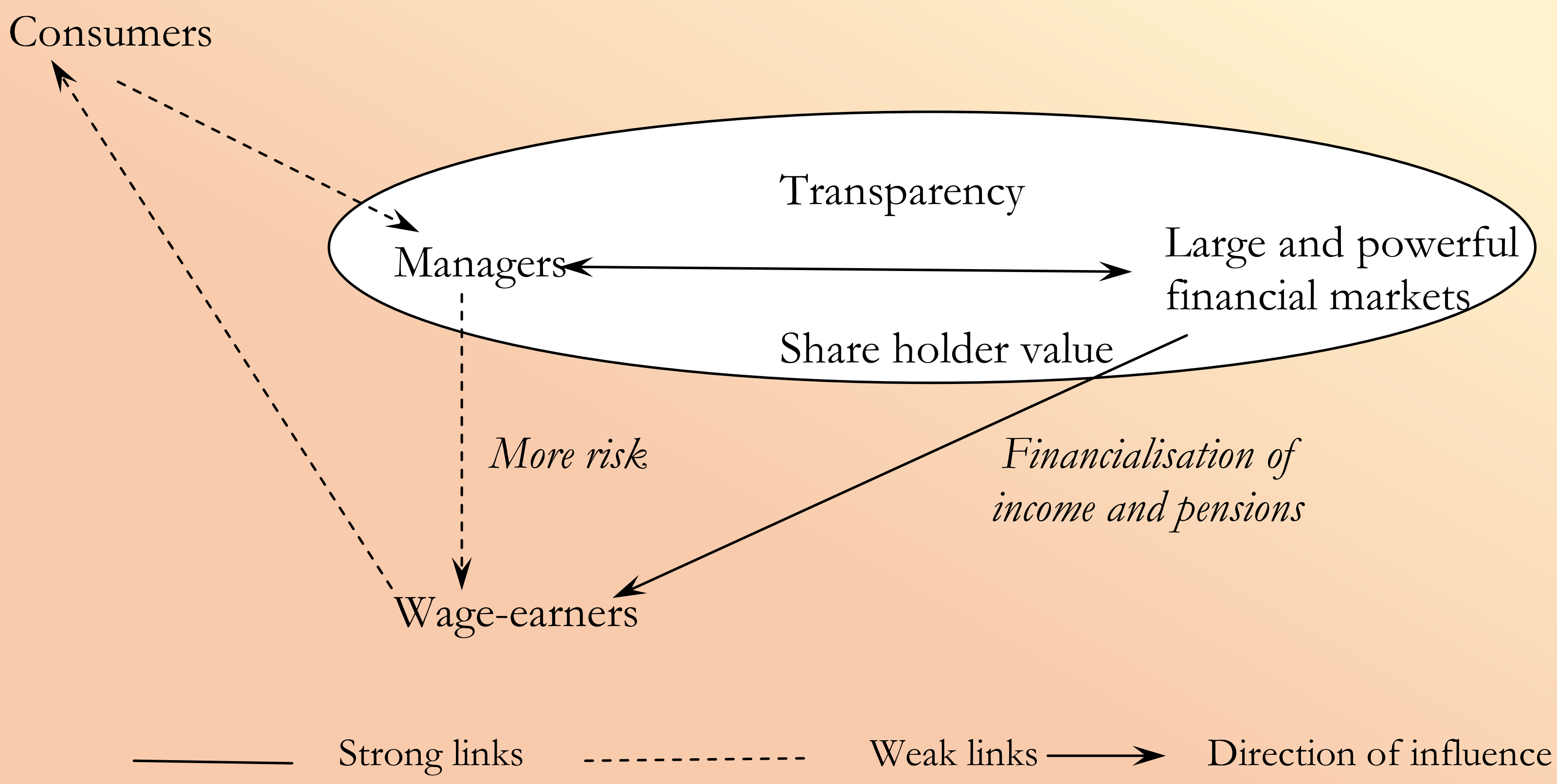
P1 – The 60s: a de facto compromise between managers and wage earners



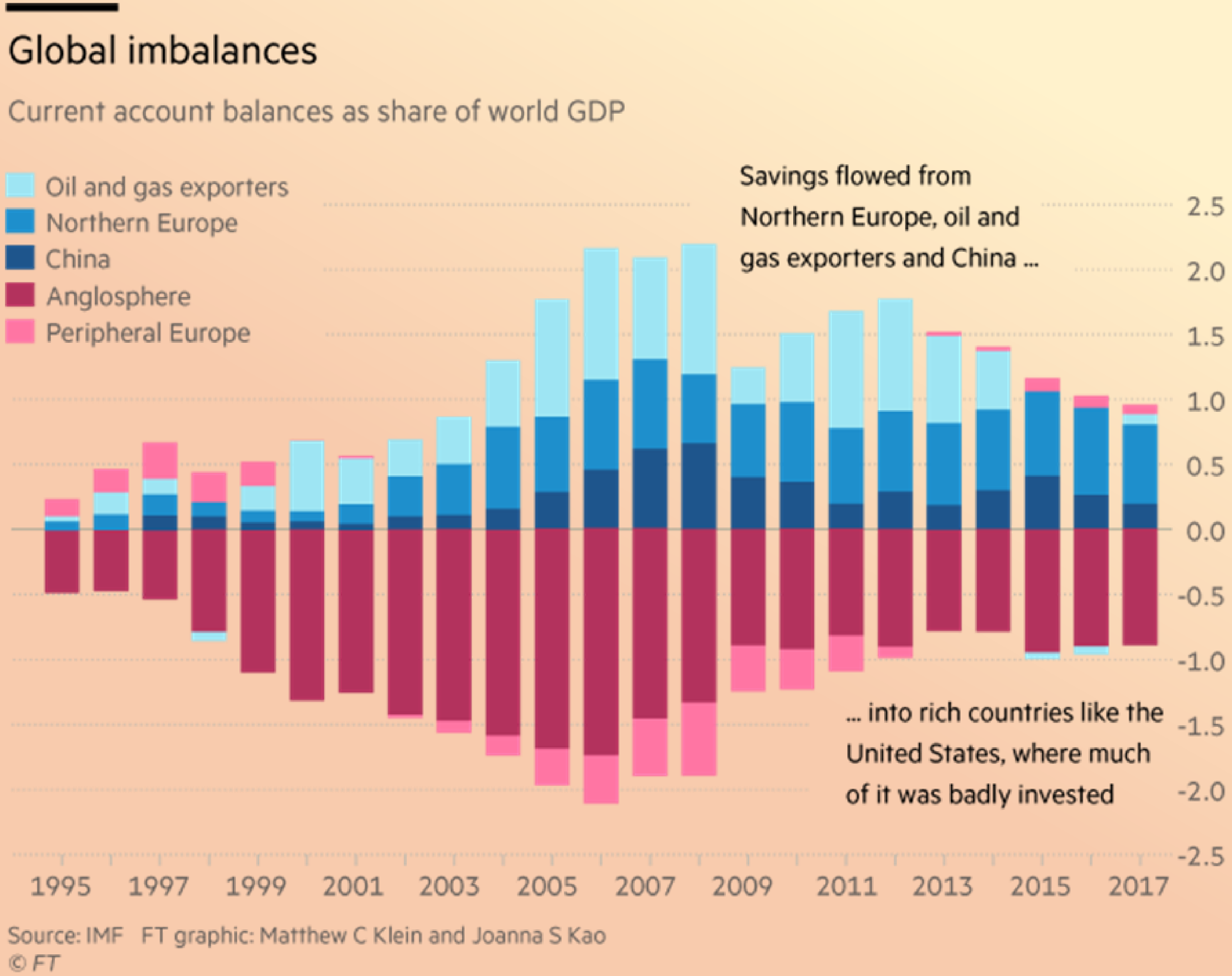
P2 – The 80s: An international competition led regime weakens the bargaining power of wage earners



P3 – The 90s: The ex post alliance of investors and managers



4. The current account imbalances imply the polarization of debtor and creditors economies



5. Why deregulation implies the supremacy of financial capital over productive capital

Table 3 – Why is financial capital wining over productive capital

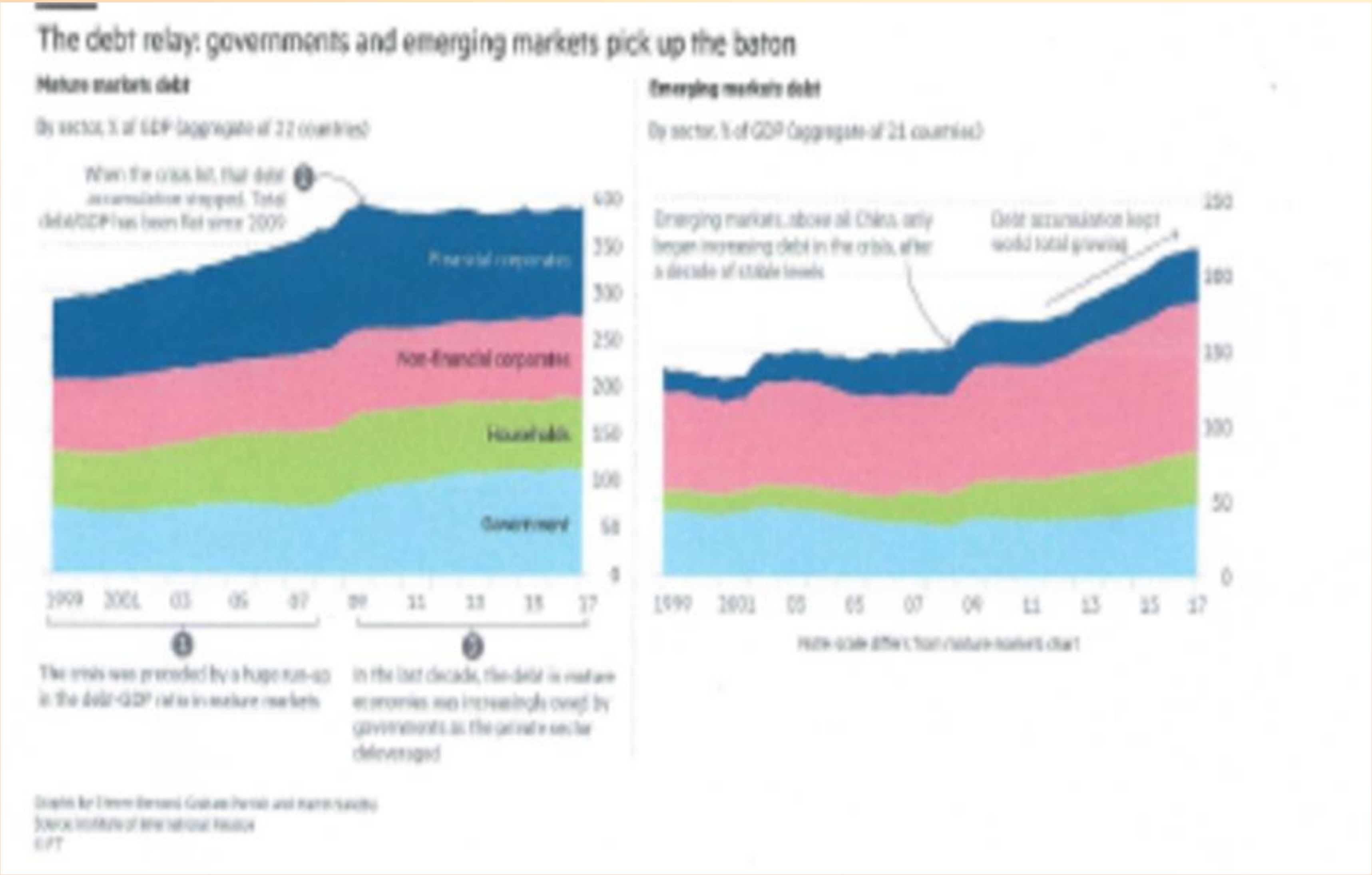
	CAPITAL	
	FINANCIAL	PRODUCTIVE
1. Temporality	Instantaneity	Built-in inertia
2. Past, present, future	Reversibility	Irreversibility
3. Spatial deployment	Global reach	Localized activity
4. Motives	Pure opportunism	Cooperation is required
5. Innovation and its speed of diffusion	Intangible Fast	Tangible Slow
6. Nature of responsibility	Diffused, too many actors	Rather clear
7. Transparency	Poor even for experts and after major crises	Partial but possible when industrial accident

IV - What is next?

1. In the past, how over-indebtedness has been overcome?
   - Long period of austerity and transfers to rentiers
   - Default of the country
   - High inflation but no adjustments of nominal interest rate
   - Real growth rate higher than real interest rate

2. Where is the weakest link: US, EU, China or rentier economies?

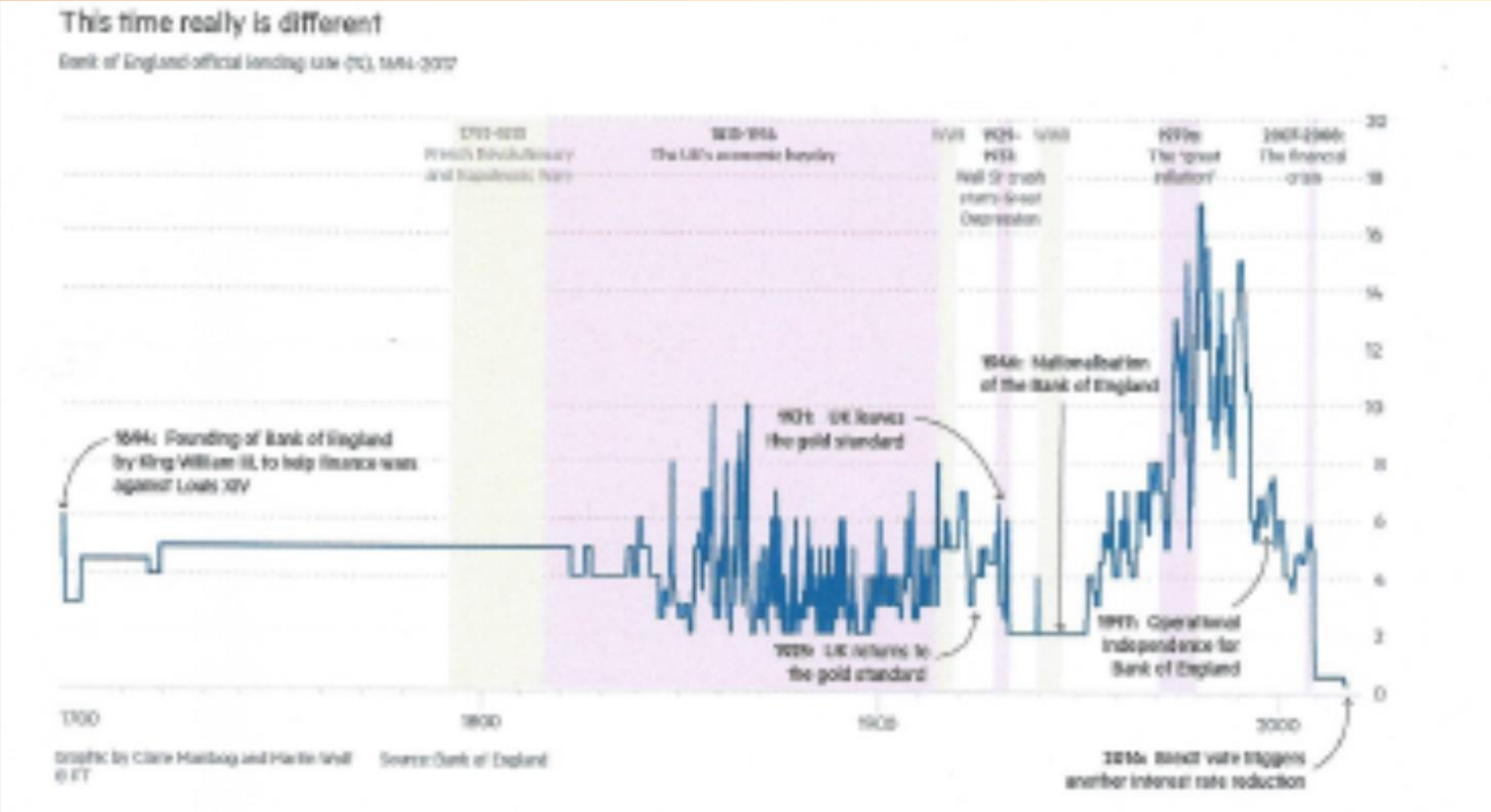
Figure 10 – Credit exuberance migrates from mature to emerging economies.



Source: Martin Sandbu (2017), “The credit crisis did not lead to deleveraging”, Financial Times, 24/08/2017

3. Is there a relevant theory for guiding these choices?

Figure 11 – Monetary policies explore unchartered territories: a lending rate near zero (UK 1800-2016)



Source: Wolf Martin (2017), Nothing like this has happened in 323 years *Financial Times*, 16 august.

CONCLUSION

C1 – The contemporary dependence of governments with respect to international finance is the consequence of a genuine trajectory because the democratic context had given a new power to citizens and wage earners , now disputed.

C2 – A major irreversibility has silently emerged out of a series of seemingly minor transformations in terms of managerial strategies, labor contracts, public policies and welfare. The governments imagined to benefit from financial deregulation but some of them (Greece) are now the servants of finance, at the cost of their legitimacy and compliance with democratic principles.

CONCLUSION

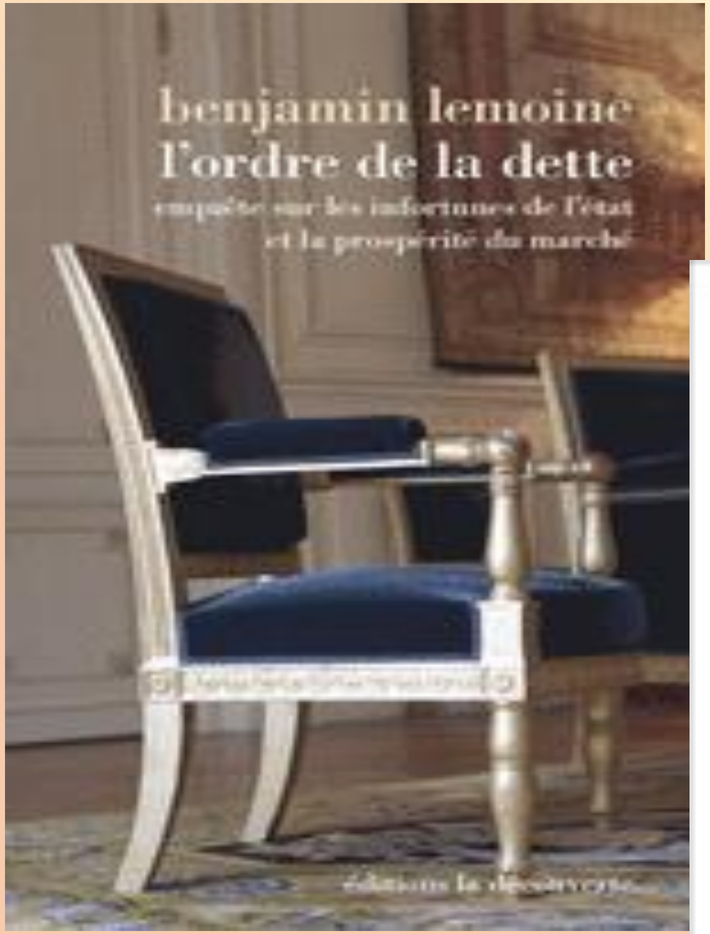
C3 – The addiction to credit in order to buy time is not over. In the US only the succession of speculative bubbles has countered the growth slow down . In emerging countries and especially in China the explosion of debt tries to overcome the exhaustion of the investment and export led growth. A clear difference: Chinese public authorities have kept the control of domestic credit because the power is still centralized.

C4 – Since the traditional electoral democracy appears to be unable to restore the power of the State over financiers and multinationals, new political movements challenge the process of globalization and this is a threat over the viability of the international regime. Similarly, zero interest rate monetary policies have helped mitigating the 2008 crisis, but they feed speculation in the desperate search for high returns.

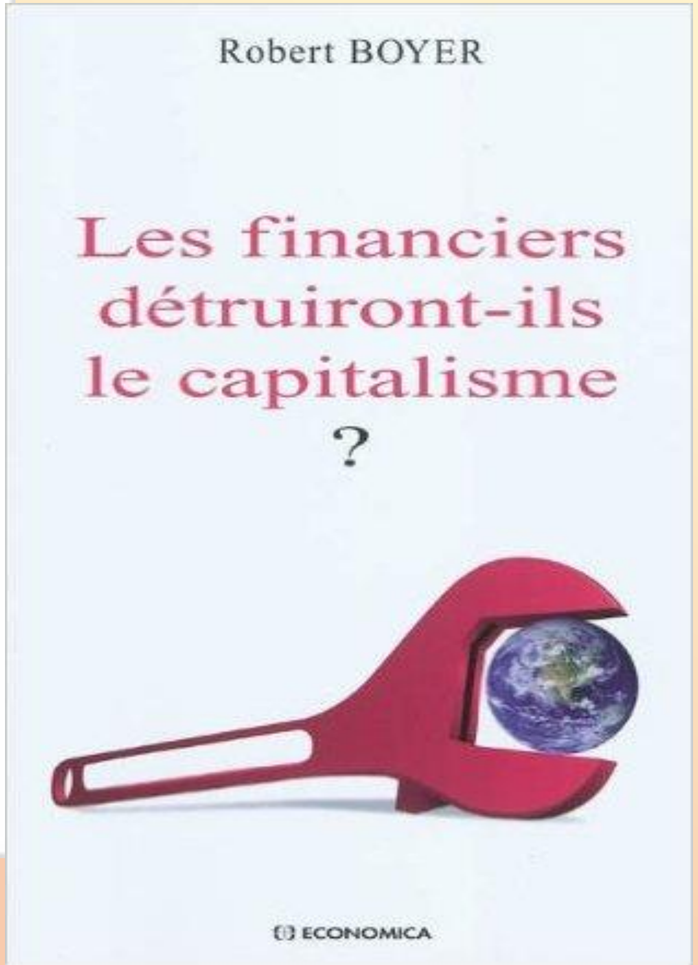
CONCLUSION

C5 – None of the strategies experimented in the past seems very promising. A **decade long austerity** is politically explosive, a **default** of a large country could trigger a world depression, an **hyperinflation** is a dangerous tool and a return to **high growth** is problematic. Economies have entered an **uncharted territory** : political authorities are unable to restore their control over financiers and economists have not yet invented the theory that could propose a way out of credit dependency.

Many surprizes and unexpected crises ahead!


benjamin lemoine
l'ordre de la dette
enquête sur les infortunes de l'état
et la prospérité du marché


ANDRÉ ORLÉAN
LE POUVOIR
DE
LA FINANCE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Les financiers
détruiront-ils
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Thanks for your attention and patience

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