UNIVERSITY OF CAMBRIDGE
Faculty of Economics

CAMBRIDGE WORKING PAPERS IN ECONOMICS

Finance as Perpetual Orgy How the ‘new alchemists’ twisted Kindleberger’s cycle of “manias, panics and crashes” into “manias, panics and renewed manias”.

José Gabriel
Palma

Abstract

This analysis will focus on how the traditional Kindlebergian financial-crisis cycle of “manias, panics and crashes” has been twisted in such a way that policymakers now ensure that any panic is immediately followed by a renewed mania. Due to “secular-stagnationists”-style thinking, central bankers, treasury officials and politicians from all persuasions —the ‘new alchemists’— now believe that only a perpetual mania can deliver some semblance of growth. So they persist in pumping in liquidity and relaxing monetary conditions, no matter how much this violates every possible principle of markets economics (which they still claim to follow), and regardless of the fact that the current policies for reactivating mature economies (rocketing the net worth of a few individuals) have already been tried and failed post-2008. One by-product of this new perpetual mania is that emerging markets have become what I have labelled “the financial markets of last resort”, and commodities “the financial asset of last resort”. In other words, most emerging markets no longer have to put up with international finance being a “sellers’” market (where they needed to knock and beg); now it is the international speculator who has been pushed into a yield-chasing frenzy in emerging markets. This new “buyers’” market has proved to be a mixed blessing for emerging markets, as many of them have joined the ‘anything goes rally’ —in which you have nothing to lose but your real economy.

Reference Details

CWPE	2094
Published	12 October 2020
Key Words	manias, panics, financialisation, QE, excess liquidity, ‘disconnect’ between the financial and the real worlds, emerging markets, Latin America, Asia, Keynes, Kindleberger, Minsky, Buchanan
JEL Codes	E22, D70, D81,E24, E51, F02, F21, F32, F40, F44, F63, G15, G20, G28, G30, G38, L51, N20, and O16
Website	www.econ.cam.ac.uk/cwpe

Finance as Perpetual Orgy

How the 'new alchemists' twisted Kindleberger's cycle of "manias, panics and crashes" into "manias, panics and renewed-manias"

José Gabriel Palma[1]
University of Cambridge,[2]
and USACH

The last thing we need to reactivate our economies
are more "silly billys" [silly billionaires]
***Financial Times* Columnist**

In my darkest moments I have begun to wonder
if the monetary accommodation
we have already engineered might …
be working in the wrong places
[in emerging markets rather than in the US].
President of the Dallas' FED

Liberalised finance tends to metastasise, like a cancer.
Martin Wolf

We welcome illusions
because they spare us unpleasurable feelings,
and enable us to enjoy satisfactions instead.
We must not complain, then, if now and again
they come into collision with some portion of reality,
and are shattered against it.
Sigmund Freud

Keywords: manias, panics, financialisation, QE, excess liquidity, 'disconnect' between the financial and the real worlds, emerging markets, Latin America, Asia, Keynes, Kindleberger, Minsky, Buchanan

JEL Codes: E22, D70, D81,E24, E51, F02, F21, F32, F40, F44, F63, G15, G20, G28, G30, G38, L51, N20, and O16

---

[1] As I am writing about insubstantial asset-price inflation, I must declare an interest: since graduating, I have always owned a comfortable house or a flat, and I have made more money via (tax-free) capital gains on them than from my long working life. The phrase "perpetual orgy" is borrowed from Mario Vargas Llosa's book of the same name, as well as from Sodré (2015). When writing this paper I had a health scare, but with Ignês, and as always, (borrowing from Neruda) "una palabra entonces, una sonrisa bastan" (Just one word, one smile are enough).

[2] http://www.econ.cam.ac.uk/people/emeritus/jgp5

Introduction

As I was finishing writing this, one individual made US$30 billion (bn) in a single day, and another (a shareholder in a tiny automaker) US$13bn, lifting his gains to US$88bn since the outbreak of the pandemic (so he's now promising to build a city next, on Mars!).[3] In turn, one asset manager made US$16bn from a single bet, while a quintet of tech-giants, after losing US$1.3 trillion (tn) in March, gained US$7tn in August —more than the entire Japanese Topix (2,170 companies).

Meanwhile, Apple, whose best days were meant to be behind them (due to a lack of product diversification and concerns about its position in China), saw a whole trillion added to its market valuation in just 21 trading days. As a new breed of policy-makers have run out of ideas, and a bunch of over-liquid speculators can't think where else to park their money, reality became stranger than fiction.

I am sure all this makes complete sense to those involved, and to neo-liberal zealots and the lobbies of many powerful special-interest groups, but this frenzy not only has a crushing effect on the real economy (and almost everything else), but it is also the outcome of a toxic cocktail of intrinsic market failures in finance, mixed with new huge market distortions. The latter includes the belief by monetary authorities that the best way of keeping calm in financial markets and reactivating mature economies is by rocketing the net worth of a few individuals, and the rapidly growing ownership-concentration in financial asset stands out —the 10 largest institutional investors now collectively own more than a quarter of the US stock market (and some have been rather shrewd at profiting from this overwhelming market power both in terms of financial gains, and of capturing policy).

In turn, Asia's 20 wealthiest families are now worth more than half a trillion dollars; and although in this region the real economy still matters, it has not been immune to this "dance of the billions" (well, now trillions): just one Asian asset manager made such derivative bets that his "Nasdaq whale" threatened to transform a "melt-up" in tech stocks into an avalanche. And, according to one insider, "the whale is still hungry".[4] No wonder Lamborghini has just registered the best month in its history, hitting a global sales record for that month. Pandemic, what pandemic? Real economy collapse, what collapse?

After the dot.com debacle, it took the Nasdaq 16 years to return to its previous peak; in 2020 (after its one-third collapse in February), this took two and a half months — only to continue its ascent towards an overall jump of 75%. As this level was out of range of every metric, and as the pandemic was becoming endemic, the conditions for a new dive are already there — just months after the previous one. Warren Buffett is surely right: "When you combine leverage with ignorance, you get some pretty interesting results".

Indeed, as the *Financial Times* (*FT*) Senior Investment Commentator said in the midst of the mayhem, "Notions that markets are perfectly efficient and move seamlessly to incorporate every new piece of information … now seem embarrassing".[5]

No wonder Kindleberger called these euphorias "manias" in the psychoanalytic sense. And things are made much worse when central bankers and governments have been deluded into believing, like the main character of

---

[3] The capitalisation of this carmaker jumped 10 times in a year, at one point reaching US$400bn, higher than Toyota's and Volkswagen's combined, and exceeding Walmart's. Tesla has also become "a faith-based stock" among armchair amateur speculators enjoying online trading during pandemic lockdowns.

[4] https://www.ft.com/content/75587aa6-1f1f-4e9d-b334-3ff866753fa2

[5] https://www.ft.com/content/b1b44de0-1283-11e8-940e-08320fc2a277

Paulo Coelho's popular novel *The Alchemist*, that "when you really want something to happen, … your wish comes true"

The fact that the current policies to reactivate mature economies (rocketing the net-worth of a few individuals) have already been tried and failed post-2008, has not stopped the 'new alchemists' from trying them all over again in 2020. As Einstein once said, "Insanity is doing the same thing over and over again and expecting different results". Indeed, (according to Moody's) in the UK *less than 1%* of the resources generated by new corporate bonds after 'QE' (quantitative easing) were used to create new productive capacities.[6] Even according to the IMF, almost anything is better for growth than more of the same QE-led financial pyrotechnics; this is particularly true of some standard Keynesian policies. For example, for the IMF Deputy Director of Fiscal Affairs, "You get a bigger bang for your buck from public investment because [the impact of current policies on] investment by private firms is extremely low".[7]

In fact, the 'new alchemists' —now the "financial dealers of last resort"— are currently trying for hat-trick: calming down financial markets after the outbreak of the pandemic by diving in with extraordinary liquidity support, including the FED buying junk bonds at 'triple A' prices; reactivating economies by making sure that a few individuals' net worth went into outer space; and convincing everybody that their post-modern growth theory is right: the more shameless QE becomes as an exchange of cash for trash, the faster the reactivation. Wishful thinking has surely become delusional.

According to one insider —as events are just screaming "bubble!"— all the 'new alchemists' have really achieved "is a return to the world of dot.com[edy]".[8]

Baron Rothschild is supposed to have said before a previous crash: "there seems to be a lot of stupid money in the hands of a lot of stupid people". Whether or not he really said it, it surely applies now! Paraphrasing Oscar Wilde, thanks to the 'new alchemists', anyone who wants to make money doing something socially useful must be suffering from a lack of imagination.

This paper's analysis will focus on how the traditional Kindlebergian financial-crisis cycle of "manias, panics and crashes" has been twisted so that any panic is now followed by a renewed mania. Due to "secular-stagnationists"-style ideas, central bankers, treasury officials and politicians now believe that only a perpetual-mania can deliver some semblance of growth;[9] so, they keep pumping liquidity and relaxing monetary conditions —no matter how much this violates every possible principle of markets economics. As Summers stated,

> If [tax-cuts-fuelled] budget deficits had …not grown relative to the economy … [and if] an extra $10tn in wealth had not been created by *abnormal* stock market returns, it is hard to believe that the US economy would be growing much at all.[10]

Therefore,

> Most of what [might be] done under the aegis of preventing a future [financial] crisis would be counterproductive.[11]

---

[6] http://www.bbc.co.uk/programmes/b09pl66b#play

[7] Quoted in https://www.ft.com/content/fc7ad858-0fdd-401e-bce5-796a8353ba30. For the IMF report in question, https://www.imf.org/en/Publications/FM/Issues/2020/09/30/october-2020-fiscal-monitor

[8] https://www.ft.com/content/c97e428e-2457-4b6a-bb8e-01477c418beb. Yet in the dot.com bubble there was at least a massive investment boom in the new technology (see Pérez, 2002).

[9] "Secular stagnation" states that when the (unobservable) 'natural' interest rate becomes negative, slow growth is due to chronically weak demand (relative to potential output).

[10] https://www.ft.com/content/aa76e2a8-4ef2-11e8-9471-a083af05aea7 (emphasis added).

[11] Ibid. See also Łukasz and Summers (2019).

Unfortunately, Summers forgot to explain how his current idealisation of 'abnormal' financial returns squares with his traditional "efficient capital markets" beliefs —as for him, "… [asset] prices will always reflect fundamental values […]. The logic of efficient markets is compelling".[12]

Krugman, of all people, agrees:

> [Today] even improved financial regulation is not necessarily a good thing … it may discourage irresponsible lending and borrowing at a time when more spending of any kind is good for the economy.[13]

In short, for growth to take place, the law of gravity supposedly needs to stop working in finance in order that a perpetual-mania can be engineered, transforming panics into mere inconvenient hangovers.

For Tobin (1978), however, what growth needs is not lubricants on the wheels of finance, but sand thrown on them.[14] Indeed, for Keynesians, governments should exercise different forms of agency aiming at 'disciplining' the capitalist élite into spending *productively*. And the "whatever it takes" should be applied to the stopping of the mania from happening in the first place!

At least some members of the FED are finally getting the point: according to the president of the Minneapolis Fed

> … we can't just keep doing what we've been doing. As soon as there's a risk that hits, everybody flees and the Federal Reserve has to step in and bail out that market, and that's crazy. And we need to take a hard look at that. … For me, monetary policy is a very poor tool to address financial stability risks.[15]

A by-product of this perpetual mania is that emerging markets have become what I have labelled "the financial markets of last resort", and commodities "the financial asset of last resort". In other words, most emerging markets no longer have to put up with international finance being a "sellers'" market, where they had to knock and beg; now it is the international speculator who has been pushed into a yield-chasing frenzy in emerging markets.

Also, due to the shortages of minimally solid financial assets in which to park excess liquidity, speculators now seek refuge in commodities —leading to artificial price-bonanzas, such as the "super-cycle".

I shall look first at the financial upheavals of January and February 2018, since they show the shape of things to come, with events in 2020 resembling those from early 2018. In January of that year, the S&P jumped by 8% entirely on the basis of hype (see below), only for this mania to be stopped by a "Minsky-moment" (first Monday of February), leading to a generalised panic and a more than 10% fall in share prices in just nine trading days. But then came the unexpected (well, by now pretty much the "expected"): even though what had just happened was the biggest recorded sudden change from exuberance to agony over a period of two weeks since records began *more than a century ago*, despite the S&P's recording its biggest ever absolute fall (and so on), that early February panic, instead of threatening to become a crash, was immediately followed by a renewed mania —and the S&P 500 jumped 8% in the following days.

As long as market makers can count on the moral hazard that no matter how much risk they take, they will not have to suffer its potential consequences because the new alchemists will always keep refilling the punch bowl, we are bound to have the perfect conditions for perpetual mania. Inevitably, there will

---

[12] https://link.springer.com/article/10.1007/BF00122806

[13] https://krugman.blogs.nytimes.com/2013/11/16/secular-stagnation-coalmines-bubbles-and-larry-summers/

[14] https://www.ft.com/content/6210e49c-9307-11de-b146-00144feabdc0

[15] Quoted in https://www.ft.com/content/5c2b7d15-7e37-475a-8d42-1e8e0a3b8708

periods of panic, but they will become merely brief interludes from excessive partying.

So we have reached the bizarre situation in which for speculators who are able to remain calm —and solvent— in the face of volatility, a financial panic is an excellent opportunity for restructuring portfolios, acquiring assets that might in the past have been lost opportunities.

In other words, financial markets now have the power to "stop, rewind, and erase" and be ready to follow the new mania marching orders coming from a cheering FED and an encouraging Treasury. Thus, what happened in early 2018 was the start of a new trend —and what has happened so far in 2020 has a feeling of déjà vu about it.

This new type of financial 'markets' has impacted emerging markets in several ways. As excess liquidity lowers yields in advanced countries —to the point of creating about US$ 15tn of government and corporate bonds with negative yields[16]— higher-yield emerging markets have become "the financial market of last resort". And as they have been flooded with cheap finance, their financial stability is at risk because their big agents are always prone to acquiring more financial risks than is privately —let alone socially— efficient. Therefore, what is likely to follow is a highly damaging dynamic of unsustainable finance.

Also, as emerging markets are now essential for international finance, their powerful lobby wants more protection, such as the reinforcement of the structure of property rights. Thus, in new "trade" agreements —e.g., the Transpacific Partnership Treaty (or TPP)— the trade component is just the bait, as its core is a Buchanan-inspired new type of *absolute* corporate protection, which includes a new García-Márquezian concept of "indirect expropriation": if *any* regulatory or policy change affects profits, no matter how rational, efficient or necessary they may be, corporations will have the right to compensation.[17]

Also, as international finance is now a "buyers'" market for emerging economies, I shall also argue (following Kindleberger, 2005; Stiglitz and Wise, 1981; and what I have previously discussed in Palma, 2009, 2012 and 2016) that this type of market is a mixed blessing. Abundance can easily have a highly destabilising effect on economies without sturdy capital controls and effective financial regulation, because highly liquid and moral hazard-distorted international financial markets lack the capacity to implement the required intelligent "credit rationing" that de-regulated emerging markets need more than most for a sustainable efficient finance.[18] Issues such as adverse selection under these circumstances are also particularly relevant.[19]

The key point here is that in emerging markets, plagued with market failures and distortions in finance, the financial price mechanism fails even more than in advanced markets, as regards being able to bring about a system of sustainable efficient finance in an environment with easy access to almost unlimited cheap finance.[20]

---

[16] Germany's negative yielding government bonds exceed the value of all the euro notes in circulation.

[17] https://www.ciperchile.cl/2019/03/26/el-tpp-11-y-sus-siete-mentiras-de-democracia-protegida-a-corporaciones-protegidas/. For Buchanan (1993), it is really big corporations that need "social protection". He saw society as in an eternal conflict between "creators" (entrepreneurs) and "kidnappers" (everyone else), who as "parasites" or "predators" would have the former constantly besieged. So, the property rights of "innovators" have to be solidly protected. This is what the TPP is really about; the rest is just the wrapping-paper.

[18] The best known aspect of "credit rationing" is the limiting by lenders of the supply of additional credit to borrowers who demand funds, even if the latter are willing to pay higher interest rates.

[19] http://delong.typepad.com/sdj/2008/03/dealing-with-ad.html

[20] The recurrent financial crises of the 1990s were in part about that; see Wade (1998);

Just one example of the impact on emerging markets of this bull market insanity is the Argentinean 100-year bond: shortly before the February 2018 debacle, Argentina (still a junk-rated country) issued a pioneering 100-year bond, part of President Macri's US$200bn debt binge. And 'investors' gobbled it up (Thomson Reuters reported orders equivalent to three times its value);[21] thus conveniently forgetting they were lending for 100 years to a serial defaulter that was using these funds mostly to subsidise capital flight. Just two years later (surprise, surprise), the implied probability of default on this bond was 85%.[22] And Argentina was not alone in seducing amnesic speculators frantically chasing any financial asset that might produce a short-term return

One way of understanding current market-distorting policies —such as 'QE', extreme monetary relaxation and rescue-packages lacking conditionality— is as an unsurprising progression of the financial reforms carried out since Reagan and Thatcher. Their real impact has been transparent: if the United States had the same level of wealth as it has today, but wealth inequality was the same that existed when Reagan was elected, the richest 1% would possess only half of their actual current wealth; the top 0.1% only a third; and the top 0.01% just a fifth of what it has now.[23]

This is the fundamental problem with the current neo-liberal model: there are not many ways to reshape its structure (so that it can move 'forward'), as it has so little entropy. In how many different ways can those at the top continue to appropriate such an absurd share of national income and wealth, and by continuing with their usual 'low hanging fruit'-type activities? In fact, while the S&P500 was soaring more than 320% between 2009 and mid-2018 —the longest bull market on record, which created more than US$18tn of (virtual) wealth—, the median US household wealth was actually falling.[24]

For Stiglitz, reviving old ideas of "secular stagnation" is just too convenient a way to rationalise all this.[25] For him, when President Barack Obama inexplicably turned to the same individuals bearing culpability for the under-regulation of the economy to fix what they had helped break, the economy languished; "they found the idea of secular stagnation attractive, because it explained their failures… ".[26] I would just add that secular stagnation-type of thinking has also become a rather convenient excuse for the 'new alchemists' implementing policies advocated by the most powerful interest groups of this post-modern world. Obama should have known better: as Minsky (1986) reminds us, "economics … is certainly too important to be left to … [financial] courtiers".

Adam Smith must be turning in his grave at the new idealisation of 'abnormal' market returns and 'irresponsible lending' preached by his supposed followers. As the *FT*'s US Managing Editor stated, "Nobody should underestimate the degree to which those QE experiments have distorted the financial system".[27]

Does anyone still remember that the neo-liberal reforms were sold by the Washington Consensus and Institutions as necessary for "getting the prices right"? Instead, financial liberalisation has led to a financial game which is

---

and Palma (2014 and 2020a).

21 https://www.marketwatch.com/story/whod-be-foolish-enough-to-buy-argentinas-100-year-bonds-the-biggest-fund-companies-out-there-2018-05-16.

22 https://www.bloomberg.com/news/articles/2019-08-21/argentina-bonds-may-be-worth-less-than-40-cents-in-a-default

23 Saez y Zucman (2016).

24 Collins and Hoxie (2018).

25 Stiglitz (2018).

26 Ibid. For Summers' response, see Summers (2018).

27 https://www.ft.com/content/0d8b3fc8-1c95-11e8-aaca-4574d7dabfb6

steered by just two main players, both determined (though for different reasons) to get the prices "as wrong as possible": the 'new alchemists', and the new Titanic-style institutional speculator.[28]

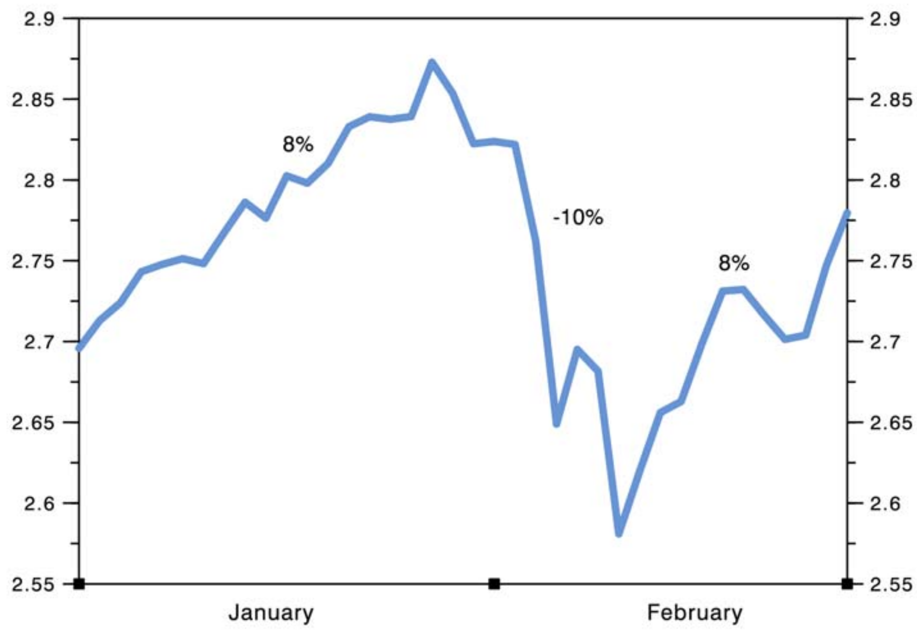
Unfortunately, Eugene Fama did not reply to our request for an "efficient capital market" view.

1.- The 2018 Roller-Coaster and the 2020 Déjà Vu

Figure 1 shows the sharp swings in the S&P500 during January and February 2018, which was the prelude for the new distorted cycle of "manias, panics and renewed manias".

FIGURE 1

S&P500: the cycle of "mania, panic and renewed-mania" of January and February 2018



● The index is shown in thousands; and rates of growth indicated in the figure are for the respective phase. The same in subsequent figures.

● Source: S&P Dow Jones Indices (2020).

Basically, thanks to the 'new alchemists', financial markets are now able to dismiss panics as if they were mere "tail risks" (risks of rare events), or simple "black swan events" (unusual events that are hard-to-predict as they are beyond the realm of normal expectations) —even if they are anything but. And the degree of generalised amnesia following this new-style financial-crisis cycle is such that I would not be surprised if many readers of this paper do not even remember what happened in those two months of 2018 —even though it was certainly no ordinary event: as already mentioned, it was characterised by the biggest ever recorded sudden change from exuberance to agony over a period of two weeks since records began more than a century ago —according to the London's *Longview Economics*, the S&P had *never* fallen so far so fast from a

[28] Previous players of this size, like J.P. Morgan, at least understood the responsibilities that came with having such a leading market role (Sobel, 1965).

record high.[29] And when the Dow then suffered its worst fall in absolute terms in its history, it led to the greatest withdrawal from global equity funds on record. It was also the end of one of the oldest and strongest bull markets in history (number 1 by some metrics), it had the largest percentage jump on record of the "Vix" index of US stock market volatility, and so on.

In other words, what happened in February 2018 should go down in financial history for at least three reasons: for the most vertiginous transitions from mania to panic ever; for the same in terms of a sharp change from stability to volatility —as what preceded it was a year (2017) characterised by having the *lowest* share volatility in more than half a century, and what followed was a baseless 8% jump in January, only for this to switch to an even greater fall in share prices in just nine trading days; and finally, for the 'V'-shape of things to come in finance, as indicated by the immediate recovery of the S&P500 in late February (another 8%).

In this post-2008-type financial market, the 'new alchemists' believe that the most effective way to deal with the problem of the "too big to fail" agents is to keep them always sweet. And to keep major players (and their powerful lobby) sweet means credible assurances of the "whatever it takes"-type to allow life to continue in a perpetual financial mania mode.

However, as we already know, credit booms weaken (rather than strengthen) output in the medium run;[30] and increased market inequality is likely to have a negative impact on growth.[31] Also, as the richest 10% in the US already own about 80% of overall wealth, including six of every seven stocks held by individuals (and the richest 1% own half), more stock-market bubbles are unlikely to do much to boost expenditure (even the unproductive kind), as they will just shift even more wealth to those 'cash-hoarding' agents who are already responsible for the 'savings glut'. As Krueger remarks,

> The top 1 percent of households saves about half of the increases in their wealth, while the population at large has a general savings rate of about 10%. This implies that if another $1.1 trillion had been earned by the bottom 99% instead of the top 1%, annual consumption would be about US$440 billion higher.[32]

Furthermore, global debt —and its components— had already swelled by 50% in the decade since the credit crisis, and financial fragility was evident everywhere.[33] Indeed, in the year before the February 2018 fiasco, there had already been US$6 trillion's worth of global private credit expansion —and in the US alone, junk bonds had already reached the US$ 4 trillion mark, and half of all investment-grade corporate bonds were already at BBB, *or just one step from junk status*.[34]

An important component of the latter was a mergers and acquisition (M&A) mania: between the beginning of QE and the events of February 2018, there had been a US$40tn M&A frenzy across the world. As no one expected any significant increase in effective demand, and as there are huge rents to be made from oligopolistic and monopsonistic power, a boost in market shares was the way forward —even if this needed ever more "irresponsible" lending to finance ever more overblown prices for existing assets.

---

29 See https://www.ft.com/content/4e3f2b56-0cf0-11e8-839d-41ca06376bf2

30 See Borio et al. (2018); Lombardi et al. (2017); and Mian et al. (2017).

31 See Ostry et al. 2014); and Palma (2019a).

32 Krueger (2012). See also www.nytimes.com/2018/08/22/business/bull-marketstocks.html

33 For example, in the US "half the core business of financing or refinancing houses [was already] under water" (www.ft.com/content/4bcd8d88-70ba-3bea-9d3b-6affa23cf8a9).

34 https://dailyreckoning.com/heres-where-the-next-crisis-starts/

The main problem with this "irresponsible" lending is that if the financial fragilities it creates went wrong, it could be ugly: "If [corporate] default rates were to reach only 10% —a conservative assumption— the corporate debt fiasco will be at least six times larger than the sub-prime losses in 2008".[35] Nevertheless, for 'secular stagnationists', what was needed was just more of the same —when (as mentioned above) what was really necessary was a new form of government agency aiming at 'disciplining' the capitalist élite into spending productively; and a key component of that would be reining in finance (in part by following Tobin's 'sand on wheels' advice).

Furthermore, what secular stagnationists (surprisingly) missed is that given relatively low levels of unemployment, sluggish growth must be at least as much about the *composition* of effective demand as about its level; that is, because increasing inequality drives spending away from its productive component. In the meantime, emerging Asia can't believe its luck as all of the above opens up huge productive opportunities for them —and many Asian corporations certainly know how to take advantage of this.[36]

And on the Titanic-style institutional speculator —those who feed on the mispricing now embedded in asset pricing, and on the fuelling of market volatility—, they can now also make money on both sides of the cycle: during the panic phase of the current cycle (i.e., from the market peak in February 2020 to its lows in March) short positions notched up paper gains of US$375bn.[37]

As the chief US equity strategist at Credit Suisse could now say with complete confidence *in the midst of the panic* of the first week of February 2018: "Investors … may have been given a gift. … You should be buying into this".[38] Indeed, the new artificial floor under asset prices built by 'the new alchemists' creates moral hazards of such magnitude that they are capable of driving speculators, particularly large ones, up the risk curve.[39] In finance the real thing to fear is the lack of fear itself.

In this way, just days after the sudden panic on Monday 5th of February 2018, speculators' anxiety was already evaporating thanks to the success of the new "therapeutic" role played by the alchemists: that of "holding", "containing" and "boundarying" speculators' anxieties. If previously those institutions acted as if their main role in this respect was *to try to avoid a mania from happening in the first place*, and to bring back some calm into markets when panics did happen —which meant allowing price corrections if some irrational exuberance had distorted the pricing of financial assets—, they now seem to think that their key role is just *to contain* speculators' panic by providing unlimited liquidity to artificially engineer a new upswing.

And in this new post-modern world, the new alchemists have the cheek to call what they do "an appropriate 'Keynesian' response to a supposed period of secular stagnation". (Yeah, right).

So let's keep pumping in more liquidity so as to allow the financial mischief to continue, and thus keep the illusion that financial markets can violate the first and second laws of thermodynamics, becoming virtual perpetual motion machines —one in a continuous motion (mania) that requires no real fundamentals.

A century ago financial markets did have J. P. Morgan-sized agents as well, but (to use Oscar Wilde's words) the difference is that now the new Titanic-style

---

35 Ibid.

36 See Chang and Rowthorn (1995); Khan (2015); Andreoni and Chang (2019); and Palma (2019b).

37 See https://s3partners.com/product-data.html

38 https://www.ft.com/content/4a6a8c26-0bdf-11e8-8eb7-42f857ea9f09.

39 https://www.ft.com/content/75587aa6-1f1f-4e9d-b334-3ff866753fa2.

speculator may well know the price of everything, but surely they know the value of nothing.

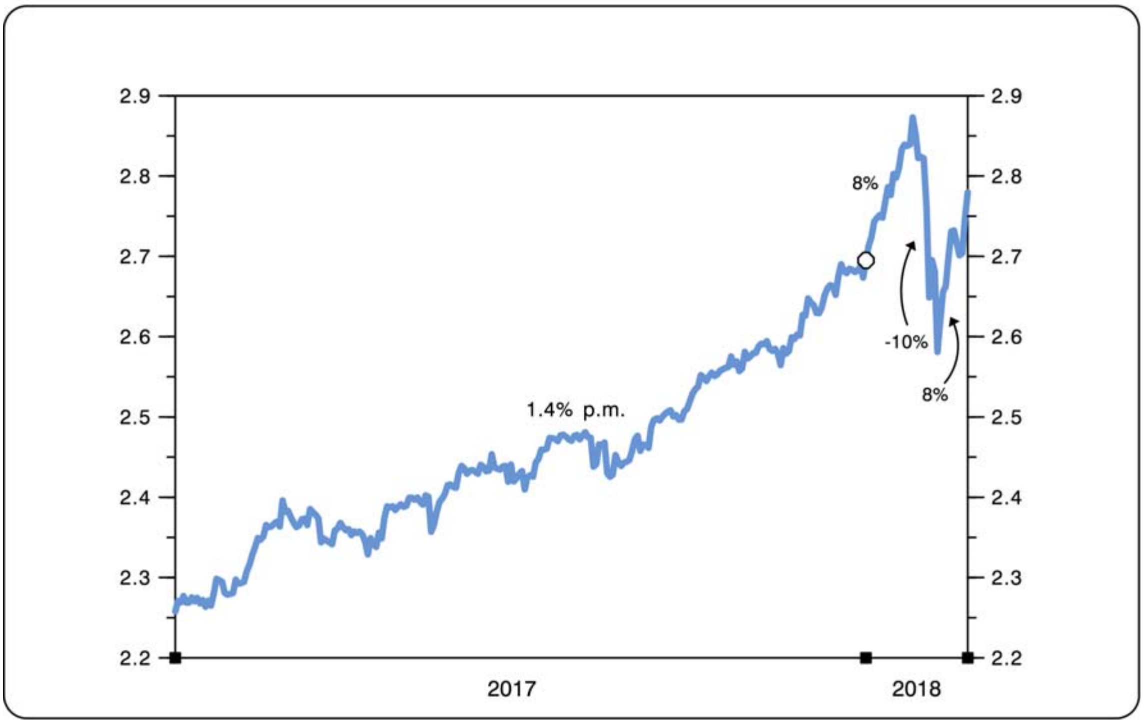
As long as the new 'therapists' keep performing the emotional holding of the speculator's anxiety —i.e., no matter how much alarm, confusion, distress, and pain can emerge in a panic, the new shrink will always be there with his or her attuned, solid and trustworthy presence and a bottomless wallet— this will create such a semblance of a safe and boundaried environment that it will become the recipe for market discipline becoming free to run amok.

How long the inevitable mounting fiscal costs of successive rescue operations, and of successive QE-led reflation —and their ever-growing distortions in financial markets— will be sustainable in the long run is, of course, a different matter, as well as how bad the long-term negative impact of this will be on the real economy.

As already mentioned, events in January and February 2018 took place after a year with the *lowest* share volatility since before the 1973 oil shock. Shares not only went up at a fast rate —the "S&P500" stock market index increased by a fifth, the Dow by a quarter, and the Nasdaq not far short of a third—, but they did so in a surprisingly *stable* way. In fact, during 2017, the S&P500 went as far as to rise *every month of the year*, something which had never before happened in this index's long history. (See Figure 2.)

FIGURE 2

S&P 500: the stable growth of 2017 vs. the sharp fluctuations of early 2018



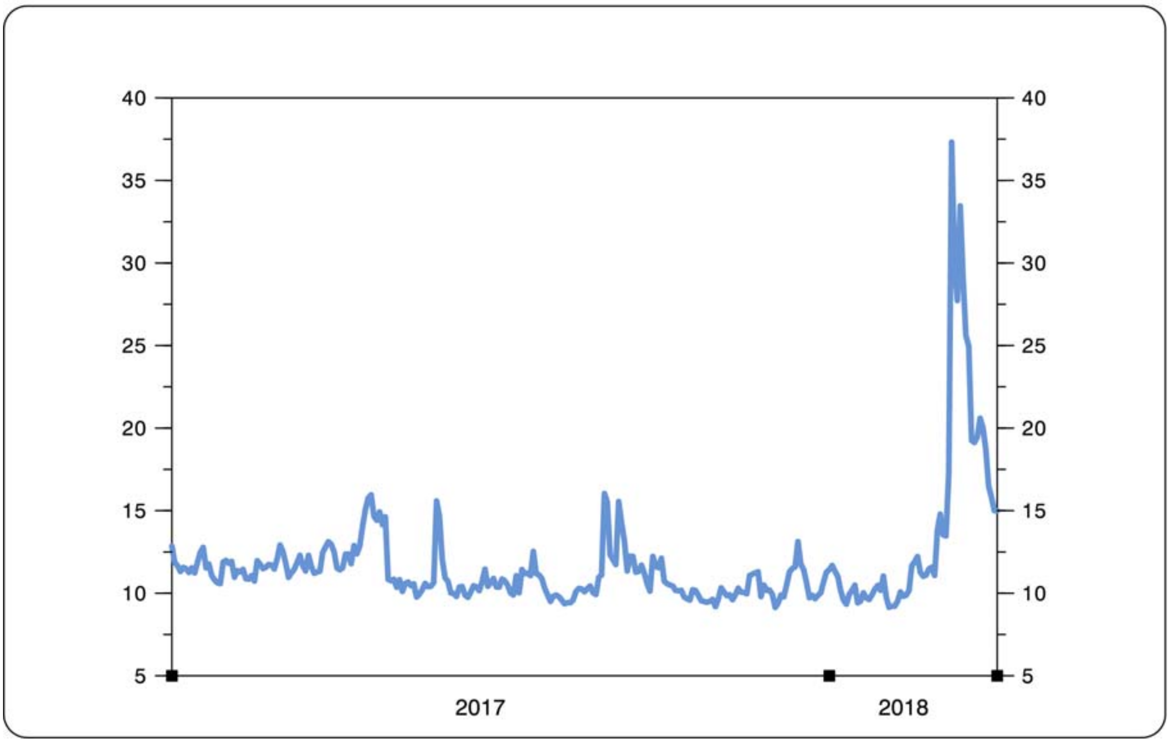
• Source: S&P Dow Jones Indices (2020).

The stable rise of 2017 suddenly switched to a remarkable price-surge in January; and then equally suddenly (and again, for no convincing reason), this bull market turned into a precipitous fall, losing more than their total January gains in just a few trading days.

The remarkable contrast between the stable growth of 2017 shown above and the sharp swings of February becomes evident in the Vix (or Velocity Shares Daily Inverse) index of Stock market volatility.[40]

FIGURE 3

The Vix volatility index: the stable growth of 2017 vs. the panic of early February 2018



● Source: http://www.cboe.com/products/vix-index-volatility/vix-options-and-futures/vix-index/vix-historical-data

Although the Vix is an easy way to make gains in a stable market (2017), the sharp volatility of just one day (5th of February, when index trebled, its greatest percentage jump on record) turned into carnage for holders of the note as by Tuesday it had already fallen by 93% in value. However, as one *FT* columnist remarked by the middle of February, the recurrent amnesia in financial markets is such that "not even the Vix horror show is deterring new suckers".[41]

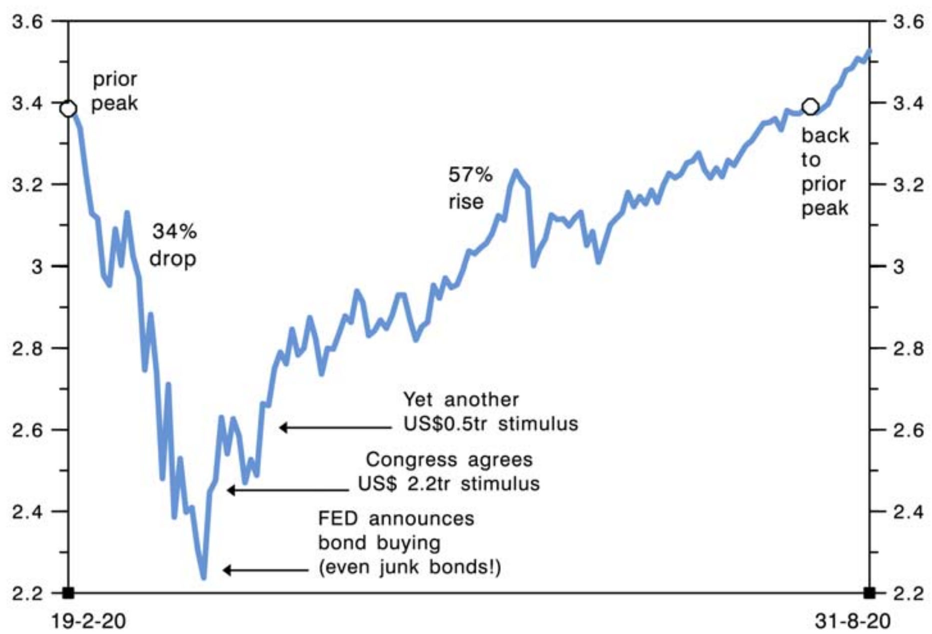
Figure 4 indicates how this new "V-shaped" cycle was replicated in 2020. Following a relatively stable 2019 (with similarities to 2017), the Covid-19 panic led to a sudden one-third drop in the S&P500 index, only for it to turn immediately into a sharp rise —in fact, the upswing was so swift that a bear-market recovery started *within one week*. By the middle of August, the index was already back to pre-Covid-19 levels, only to continue its ascent despite a persistent unease about the pandemic, the World economy, and the US election.

40 The Vix is a measure of the "implied volatility" of the S&P500 — implied, that is, by the market prices of "put" and "call" options.

41 https://www.ft.com/content/4b629a6a-126a-11e8-940e-08320fc2a277

FIGURE 4

S&P 500: how the 2020's panic turned immediately into the fastest bear-market recovery in history



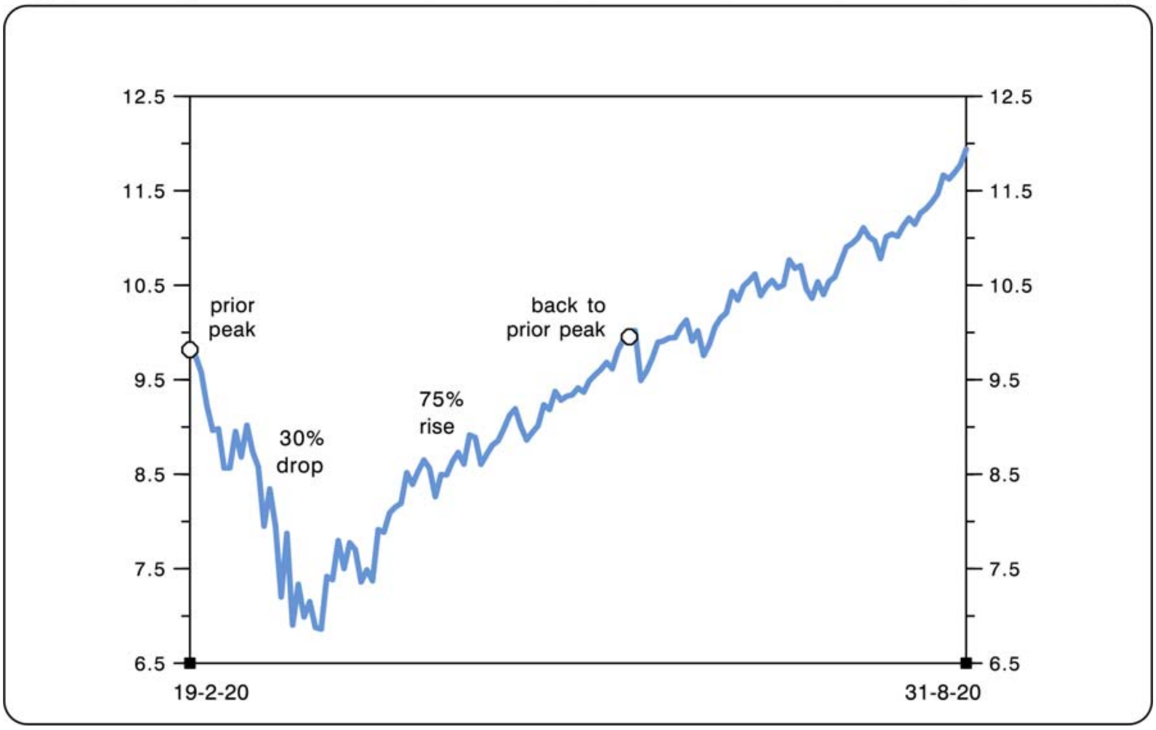
• Source: S&P Dow Jones Indices (2020).

However, the specificity of this "V-shaped" recovery is that it hides its "K shaped" soul: while five tech giants (which now represent more than a fifth of the S&P500) went through the roof, one fifth of companies ended this period still more than 50% below their all-time highs —with the median stock still 28% below its peak.

Figure 5 shows the top part of the "K", as reflected in the Nasdaq Composite Index —where there wasn't so much a "V-shaped" recovery as a Nike "√"-shaped one.

FIGURE 5

Nasdaq: the 2020's "√"-shaped bear-market recovery from the Covid-19 panic



● Source: Nasdaq (2020).

As Figure 5 indicates, the new alchemists succeed in increasing the net worth of a few executives and shareholders of a handful of firms beyond their wildest dreams; and short sellers became an endangered species in this US$13 trillion rebound.[42] According to Bloomberg, "buying surged among professional investors [mainly because they] were forced back into stocks despite a recession, stagnating profits and the prospect of a messy presidential election".[43] A falling dollar was providing a further boost.[44]

This sharp rebound has renewed fears about the growing disconnect between 'Wall Street and Main Street'. As Figure 6 indicates, during the second quarter of 2020, while the US economy shrank by 9.5% vis-à-vis its previous quarter —at an annualised rate of 33%—, the S&P 500 jumped to a new record high in August. Indeed, while output, employment and investment were sinking like a stone, along with the new low in the US-China relations and the prospect of a chaotic US election, one financial insider lamented, "…our biggest mistake may be that we have not been optimistic enough".[45]

[42] https://www.bloomberg.com/amp/news/articles/2020-08-21/bears-are-going-extinct-in-stock-market-s-13-trillion-rebound

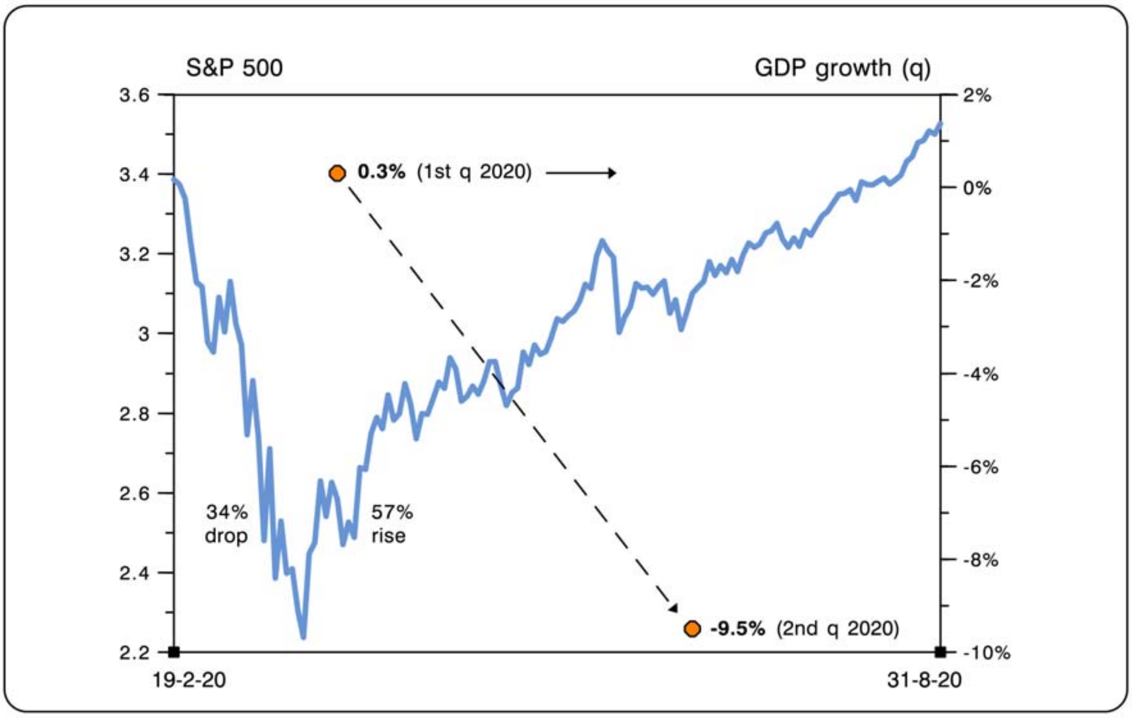
[43] Ibid.

[44] For Rogoff (2020), "At some point, markets will be disabused of the notion that taxpayers will cover everything indefinitely." Well, I don't see that happening any time soon!

[45] Quoted in https://www.ft.com/content/c97e428e-2457-4b6a-bb8e-01477c418beb.

FIGURE 6

S&P500 & GDP growth: a frantic bull-market in an extreme bear-market environment



● Source: S&P Dow Jones Indices (2020); and BEA Data (2020).

This is not really the world according to the 'efficient capital market' theory, where there cannot be an *endogenous* gap between stock-market prices and economic fundamentals —let alone a bubble. In other words, asset prices deserve a pedestal, and stock options (even in a world of massive shares buybacks) are the most rational reward for good performance. Also, as it is claimed that stock prices are a 'random walk', they are supposed to be unpredictable and cannot be modelled or forecasted, meaning that under risk neutrality there is no scope for profitable speculation because a rational stock market cannot be beaten with any consistency. (Warren Buffett must think that this is a Chicago joke…)

Furthermore, if asset prices get misaligned, they will always self-correct because 'smart' market players would simply force stock prices to become rational by doing exactly the opposite of what they do in real life: take the other side of trades if prices begin to develop a pattern —as this is bound to have no substance. In other words, for the efficient capital market theology a 'rational' surfer is not one who enjoys riding waves, but one who drowns trying to create undertows.[46]

This theory became such a powerful hegemonic consensus that while Bernie Madoff was laughing all the way to the bank, Alan Greenspan was still arguing against tightening regulation against financial fraud, "as rational markets can take care of themselves".[47] However, as we now know, under his watch the

[46] Soon after the 2008 debacle, I was invited to be a member of a panel to nominate candidates for the biannual 'Deutsche Bank Prize in Financial Economics' (worth 50,000 euros); the first ever prize had been given to Eugene Fama in 2005 for developing his intellectual weapon of mass destruction.

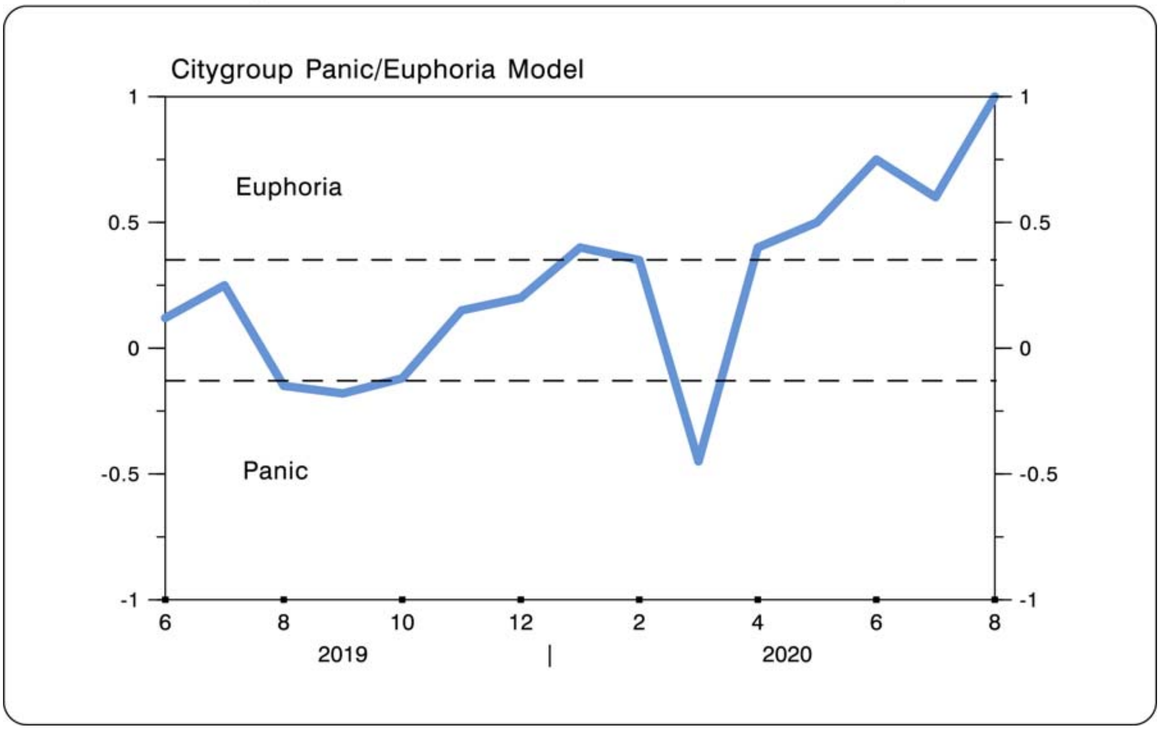
[47] http://www.dailykos.com/story/2009/3/27/172419/727. This statement reminds us of

system already had rampant flows of tainted money;[48] and five global banks — JPMorgan, HSBC, Standard Chartered, Deutsche Bank and Bank of New York Mellon— were helping shadowy characters and criminals to move staggering sums of illicit cash around the world, in a scam that totalled US$2 trillion.[49] HSBC's subsidiaries were transporting billions of dollars of cash in armoured vehicles for Mexican drug lords, clearing suspicious travellers' cheques worth billions, helping drug-related mass murders to buy planes with money laundered through Cayman Islands accounts, and moving at least US$7bn from Mexico into the bank's US operations. And other subsidiaries were moving money from countries on US sanctions lists, and helping a Saudi bank linked to Al-Qaida to shift money to the US.[50] There is no doubt Greenspan was right about one thing: 'rational markets' certainly do know how to take care of themselves!

In terms of Figure 6, the 'disconnect' between the real and the financial in 2020 was such that despite the massive economic downturn, the S&P500 was trading at some of the highest multiples since the dot-com era —e.g., 26 times forecast earnings. In fact, the mood in financial markets was so cheerful that Citygroup's Panic/Euphoria Model, a sentiment gauge, was in a blissful mood —likewise one not seen since the dot-com bubble. (Figure 7.)

FIGURE 7

"Market sentiment", June 2019-August 2020



● This model tracks metrics from options trading to short sales and newsletter bullishness.

● Source: http://www.city-group.com/

Mencken's remarks: "For every complex problem, there is always an answer that is clear, simple and wrong." (https://archive.org/details/NotesonDemocracyH.L.Mencken11/page/n41/mode/2up).

[48] https://www.bbc.co.uk/news/uk-54225572

[49] FinCEN Files (2020).

[50] https://www.theguardian.com/business/2012/jul/17/hsbc-executive-resigns-senate

At the end of August, the reading of City's model, at around 1.1, was almost three times the level that denotes euphoria, also showing the longest run of extreme bullishness for three decades. During this fastest bear-market recovery in history,[51] options traders were just piling in on bullish wagers while bears were fast disappearing —precisely at times that were ripe for scepticism! In fact, while some bets on a continuous rise in share prices were so large that they behaved as "whales", the economy and corporate profits were stuck in a huge recession. Banking on a perpetual fiscal and monetary stimulus, a fear of underperforming the market prompted money managers to chase the gains, despite bleak prospects for the real economy and WHO's warnings about the pandemic becoming endemic —they just could not miss on the next Tesla.

It is hard to imagine a market more ripe for a major correction! As Carmen Reinhart, the World Bank's chief economist, notes, "If you look at financial sector vulnerabilities, …it is difficult to not be pretty bleak".[52]

2.- The "Up-and-down" Analysts and the Upheavals of 2018

Paul Krugman once said there were three types of economists, one group of which was the "up-and-down" ones —those who analyse the daily comings and goings of the market, and see their job as having to embellish whatever is going on in finance, believing that their primary mission in life is constantly to generate a positive spin on events, dressing them up with explanations that are simple, mechanical and invariably 'optimistic'. In 2018, they first generated a positive spin on the January mania, then on the panic, and finally concocted another for the renewed mania that followed. Everything was just 'rational behaviour' on the part of agents reacting reflexively to new information.

2.1.- The January 2018 Mania

Among the many "up-and-down" explanations, three stand out: consumer confidence, Trump's new plan for investment in infrastructure, and his tax reform. On the first, as many people view stocks as a barometer for the economy −even though few own stocks directly− towards the end of 2017, consumer confidence had jumped to a 17-year high. On the second, at the start of 2018, Trump announced "the biggest and boldest infrastructure investment in American history", involving a potential expenditure (private and public) of US$1.5tn. For financial markets always anxious for 'good news' that might justify exuberance, it mattered little that this plan was obviously "fake news" as Congress (controlled by the President's Party) *immediately* announced that they were only prepared to increase the infrastructure budget by US$21 billion —slightly more than just 1% of Trump's proposal.

Finally, Trump's other piece of "good news", his tax reform, had a bit more substance —at least for those at the top and for big corporations, as it was the biggest corporate tax cut in US history. Although Trump described it as "a giant tax cut for the middle class", almost half of the (massive) benefits were destined for the top 1%, while those earning less than US$75,000 a year would lose out.[53] As a Forbes highlighted, "The GOP Tax Plan Scrooges Middle Class, Retired And Poor".[54] It would also inevitably add another US$1.5 trillions to the deficit; and according to Fortune, "Never in modern times have we seen tax cuts

---

[51] On some metrics, the recovery in 1982 was even faster.

[52] https://vimeo.com/447423565

[53] http://www.taxpolicycenter.org/publications/distributional-analysis-conference-agreement-tax-cuts-and-jobs-act

[54] https://www.forbes.com/sites/johnwasik/2017/11/29/how-the-gop-tax-plan-scrooges-middle-class-retired-and-poor/#274ebe926c1e

being implemented … with debt to GDP north of 100%".[55] In turn, it would have a minimum impact on growth; according to Moody's it would add only 0.1 or 0.2 percentage points to GDP growth in 2018; and for JPMorgan's Funds chief global strategist, "the bump to growth in 2018 will likely be a one-year wonder."[56] But, for the "up-and-down" analysts, the late December tax reform was just unqualified great news, and their excitement reached new heights.

Furthermore, as the inevitable substantial increase in issuing US Treasuries to pay for these tax cuts was bound to absorb such a large share of dollar liquidity, a crisis in the rest of the dollar bond markets was highly likely (and in fact it did happen) —especially because at the same time the FED was about to trim its balance sheet.

Meanwhile, the few "fiscal conservatives" still left among Congressional Republicans were totally dumbstruck —but they still supported the tax cut.[57]

The true nature of this tax reform became evident when a corporation immediately announced that their 2017 post-tax profits were magically going to nearly double (from US$36bn to US$65bn).[58] Even the chief economics commentator at the *FT* called this tax cut "A Republican tax plan built for plutocrats".[59] And another columnist rightly asked: "Have they all lost their collective minds?"[60]

In fact, following the tradition of Republican tax cuts started by Reagan, the greatest beneficiaries were financial markets and the plutocrats connected to the old technology paradigm, particularly the most polluting ones. As the *FT* pointed out, "Oil refiners, railroads, airlines and banks are expected to be among the biggest beneficiaries".[61]

In the meantime, large technology companies would benefit mainly by "…repatriating …cash for equity buybacks".[62] Apple, for example, "returned" to shareholders in the form of buybacks and dividends another US$100bn on top of the US$210bn already distributed since 2012 —a sum that was greater than the market value of all but 20 of the biggest listed companies.[63]

In turn, while the US was already falling back in the tech areas which were going to underpin the industrial internet and machine-to-machine communication that every company in every industry will depend on for growth in the following decade, Cisco Systems announced that it would spend more than three times what it would spend in investment on buying back its own shares.[64] In fact, a report by Morgan Stanley indicated that in the 550 corporations it studied, private investment was hardly mentioned in the plans for using tax windfalls. Trump's "America first" policy did not seem to extend to the industries of the future, only those of the past. Meanwhile, China was getting further ahead

---

[55] http://fortune.com/2018/02/09/why-americas-about-to-pivot-from-cheering-the-economy-to-fearing-the-debt/. See also http://fortune.com/2018/03/15/us-national-debt-trump-tax-cuts/.

[56] http://money.cnn.com/2017/12/29/investing/stocks-2017-wall-street/index.html

[57] Even Rand Paul voted in favour; in Trumpian times, dissent is a luxury that few can afford…

[58] https://www.ft.com/content/d4b0b188-196f-11e8-956a-43db76e69936

[59] https://www.ft.com/content/e494f47e-ce1a-11e7-9dbb-291a884dd8c6

[60] https://www.zerohedge.com/news/2018-02-11/have-they-all-lost-their-collective-minds

[61] https://www.ft.com/content/9eef31ba-e13d-11e7-8f9f-de1c2175f5ce

[62] Ibid.

[63] https://www.ft.com/content/1c85aaf0-4f7a-11e8-a7a9-37318e776bab

[64] https://www.ft.com/content/99fbaf9e-4ef2-11e8-9471-a083af05aea7. See also Philippon (2019) for the chronic under-investment in the industries of the future.

in the global race to 5G;[65] and was challenging the US for artificial intelligence dominance.[66] It already had more 'super-computers' than the US.[67] To state the obvious, sustainable growth comes from enriching the technology ecosystem as a whole, not the net worth of a few executives and shareholders of a handful of firms.

But with such short-sighted and easily thrilled "up-and-down" analysts, the initial reaction to the approval by the Senate of the tax bill on December 20 (on a party-lines vote of 51 to 48) was like throwing petrol onto their already rampant euphoria. In turn, Christine Lagarde proclaimed at Davos (in the World Economic Forum) in January that she was "consigning the troubles of the past decade to history".[68] And other reports spoke of a cyclical growth-path permeating *all corners of the world* —including (would you believe!) Latin America![69]

This rampant mania was the perfect scenario for Trump's majestic appearance at Davos to proclaim *Urbi et Orbi* that thanks to the greatness of his administration, "the stock market was smashing one record after another"; and (incorrectly) that it was up "almost 50% since my election".[70]

The same frame of mind was permeating all the financial press; one of the *FT*'s best known analysts was even speculating whether, finally, "secular stagnation had morphed into secular expansion".[71] Difficult to remember a Davos in such an ebullient mood. Even that 100-year Argentinean bond was trading at 105% of its face value![72]

Just a few days later, all this exhilaration morphed into a sudden panic: on Monday February 5th —while some self-satisfied guests were still skiing at Davos— the Dow suffered its worst fall in absolute terms *in its history* (it fell 1.175 points). The S&P500 and the Nasdaq were not far behind. And those remaining guests at Davos had to scramble for the airport, as in the blink of an eye, global stock markets lost US$5 trillion in value; and records kept being broken, one after another.[73]

2.2.- The Panic of the First Week of February: surely the fault of wages!

The immediate consensus among "up-and-down" analysts was that the main culprit of the sudden downturn was the news that in January, nominal wages in the US had risen 0.2 percentage points more than the "expected" in annual terms. What a calamity!

---

[65] http://www.analysysmason.com/About-Us/News/Press-releases/china-holds-narrow-lead-in-global-race-to-5G-Apr2018/?bp=%252fPress%252f

[66] https://www.ft.com/content/b799cb04-2787-11e8-9274-2b13fccdc744

[67] Of top 500 supercomputers, China owned 202, while the US just 143 (https://www.bbc.co.uk/news/technology-44439515).

[68] https://www.ft.com/content/d900ef2e-ff74-11e7-9650-9c0ad2d7c5b5.

[69] https://www.fulcrumasset.com/latest-research/

[70] In fact, it was 34% higher (https://www.weforum.org/agenda/2018/01/president-donald-trumps-davos-address-in-full-8e14ebc1-79bb-4134-8203-95efca182e94/).

[71] https://www.ft.com/content/38fbdf1a-678d-3c92-8df0-9ee5ba890fae

[72] https://www.bloomberg.com/news/articles/2018-05-09/argentina-century-bond-yield-jumps-as-imf-aid-requested-chart.

[73] For example, the already mentioned greatest jump on record of the "Vix" volatility index; another was that "Investors yanked a record $30.6bn from global equity funds this week — the most on record" (https://www.ft.com/content/9ceb6136-0d66-11e8-839d-41ca06376bf2).

The "up-and-down" analysts, of course, didn't bother to explain why a nominal growth in wages of 2.6% over the year was apparently unsustainable *in the upswing* of the cycle, while a growth in earnings per share of ten times that amount was perfectly reasonable and sustainable. Worse still, they omitted to mention that in spite of this minor wage increase, labour's share of national income had actually fallen, yet again, in 2017.[74]

Added to this, just a few days later, the US price index for January showed an annual rise of 2.1%, also fractionally higher than the "expected" figure —though perfectly within the range wanted by the FED. Furthermore, the FED's favoured inflation measure (the 'core personal consumption expenditures' index, which excludes the volatile food and energy components) was still below 2% for the year, which not only had remained at a level almost unchanged for several months, but also again within a range that was perfectly acceptable to the Fed.[75]

In fact, these two events would normally have passed by almost unnoticed —especially because preliminary wage and inflation data are notoriously noisy and prone to revision. But the "up-and-down" analysts needed to find a culprit for the stock-market collapse, and what better than wage inflation! Furthermore, this could also be twisted into "markets reacting to good news": an economic recovery that may be getting out of control. Trump, of course, didn't miss the chance: "In the 'old days', when good news was reported, the Stock Market would go up. Today, when good news is reported, the Stock Market goes down. Big mistake, and we have so much good (great) news about the economy!"[76]

A further twist to this saga is that January's small wage rise "above expectations" was soon revised downwards, as it was reported that the annual increase in wages had actually been at perfectly "expected" levels. So, everyone could now happily enjoy the renewed mania party —the Ponzi of virtual currencies included.

Among the many new factors playing an amplifying role on both sides of swings, one that stands out is the rise of passive index funds, in particular the exchange traded funds chasing the S&P500 index and mapping the Vix volatility index. Another is online technology which now allows armchair speculators to enter and exit markets en masse in a way not possible in the past. And the rapidly growing concentration in share ownership did not help either.

2.3.- The End-of-February Renewed Mania

By the end of February, the new FED chair was already proclaiming that "headwinds may be turning into tailwinds".[77] And for one of the most influential reports, the severe share fall was just "a mean reversion in global growth" —although this "… may be happening earlier than expected by the models".[78] In turn, a well-known "up-and-down" analyst stated that it was just part of a synchronised pick-up in global economic activity, "turbocharged by the implementation of pro-growth fiscal measures and deregulation, as well as brighter prospects for an infrastructure boost. Meanwhile, …the US central bank continues the "beautiful normalisation" of unconventional measures".[79] And

[74] https://www.oxfordeconomics.com/my-oxford/publications/432844

[75] See https://www.ft.com/content/80829dba-4c6e-11e8-8a8e-22951a2d8493

[76] https://twitter.com/realdonaldtrump/status/961253168968622086

[77] https://www.federalreserve.gov/newsevents/testimony/powell20180226a.htm

[78] Quoted in https://www.ft.com/content/2edbbd76-1e37-11e8-aaca-4574d7dabfb6

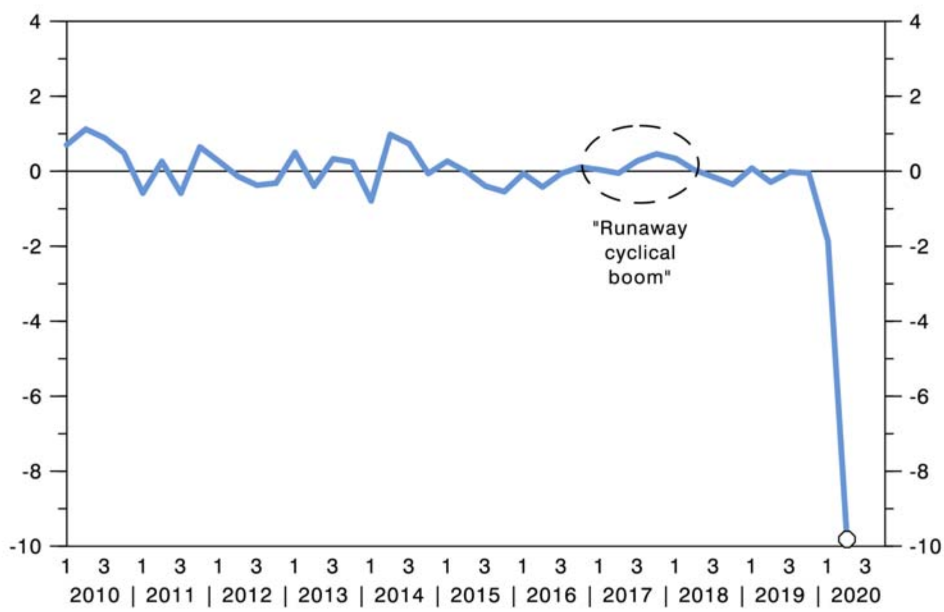
[79] https://www.ft.com/content/1f317854-0760-11e8-9650-9c0ad2d7c5b5

according to a report just quoted, "the strong global expansion in real output was the dominant driver of recent huge financial asset returns".[80]

Even one of the most respected analysts saw the early February collapse as "a pause for breath …, since it reduces the risk that a runaway cyclical boom will blow the lid off world inflation".[81] Inflation? What inflation? Runaway cyclical boom? What boom? (Figure 8.)

FIGURE 8

U.S.: GDP growth. Difference between actual quarterly growth and "trend", 2010-2020



- Trend=average growth of previous 8 quarters.
- Source: BEA Data (2020).

As the figure indicates, instead of a 'runaway cyclical boom', all that had happened was a minor acceleration in the quarterly rate of growth in the second half of the year, lifting the difference between that and "trend" growth to just 0.28% and 0.46%. How anyone, let alone a partner in a top investment bank, and one of the *FT*'s most senior columnists, could call this a 'runaway cyclical boom' is a mystery to me. What amazes me is how easily the 'story-telling' convinces the story-tellers themselves! JPMorgan did a bit better when it stated that the February panic had been only "a return from the [financial] stratosphere".[82]

The renewed mania that followed was such that "One seasoned fundraiser described the mood … as 'frenzied',"[83] even though "…dealmakers were already experiencing a degree of the emperor's new clothes".[84] And "[Citi] seem to have

80 https://www.fulcrumasset.com/latest-research/

81 https://www.ft.com/content/2edbbd76-1e37-11e8-aaca-4574d7dabfb6

82 Ibid.

83 https://www.ft.com/content/0a1067b0-1c9f-11e8-aaca-4574d7dabfb6

84 Ibid.

forgotten the time when they were a buck a share".[85] In fact, for one executive at a European multibillion-euro fund, "There is a massive amount of vested interest for the thing to go on forever."

In sum, the "up-and-down" analysts are a good example of Foucault's (1979) ideas of the relationship between power and knowledge in terms of how "expertise" can easily be misused as an exercise of political power. One group of Native Americans used to say, "those who are good at storytelling will dominate the world".

3.- "QE" as a Liquidity-Pumping Machine, Which Gave Financialisation a Whole New Meaning[86]

From the perspective of the ideas of economists like Keynes, Kindleberger and Minsky, within a tradition that also includes intellectuals such as Veblen, Hilferding and Kalecki —although each was stressing somewhat different dynamics— the basic problem with unregulated and over-liquid financial markets is that operational normality can easily turn into manic exuberance, and this into profligacy. QE did in fact help to move things in that direction, as Central Banks in the US, Europe and Japan injected about US$15tn of liquidity in this form. The crucial assumption of this policy is that once QE had helped to calm financial markets after a panic, a continuous wealth-effect in asset-holders would set the economy in motion again.

In fact, the 'new alchemists' had responded to a crisis caused by excess leverage by accumulating more (in fact, much more) debt of all kinds, not less. And banking fragilities had not really gone away as, for example, most US banks' derivatives books became even larger than when Bear Stearns had to be rescued.[87]

Furthermore, QE's capacity to reactivate the real economy has been minimal, as this extra liquidity has been used for anything but creating more productive capacities —as quoted above, in the UK this was *less than 1%*. And lacking shareholders' support to invest, executives struggled to turn modest economic growth into higher earnings (including their own…); so companies started borrowing to spend on buying their own stock and increasing dividends, which provided a boost to the stock prize and to the size of dividends reported per share.[88] According to Dealogic, between 2000 and 2017 equity withdrawn from the market reached US$5 trillion.[89]

Another of the many QE-induced distortions is that "…pension savers — virtually all of us — may find to our horror that we are the [QE] schmucks".[90] Furthermore, low levels of corporate investment with rising corporate saving drives the growing mismatch between abundant liquidity and a relative shortage of solid financial assets, making the ease of performing a transaction in a hollow security or instrument the trademark of the current process of financialisation.

---

[85] Quoted in https://www.ft.com/content/201bce0c-289b-11e8-b27e-cc62a39d57a0

[86] By 'financialisation', I understand the rise in size and dominance of the financial sector relative to the non-financial sector, as well as the diversification towards financial activities in non-financial corporations.

[87] At the end of 2017, five of the biggest US banks had derivatives books worth US$157tn — twice global GDP. This was much higher than the amount these banks had when entering the 2008 crisis.

[88] https://www.ft.com/content/713a378c-01d7-11e8-9650-9c0ad2d7c5b5 On Apple, see, http://www.bbc.com/news/business-43965870

[89] http://www.dealogic.com/

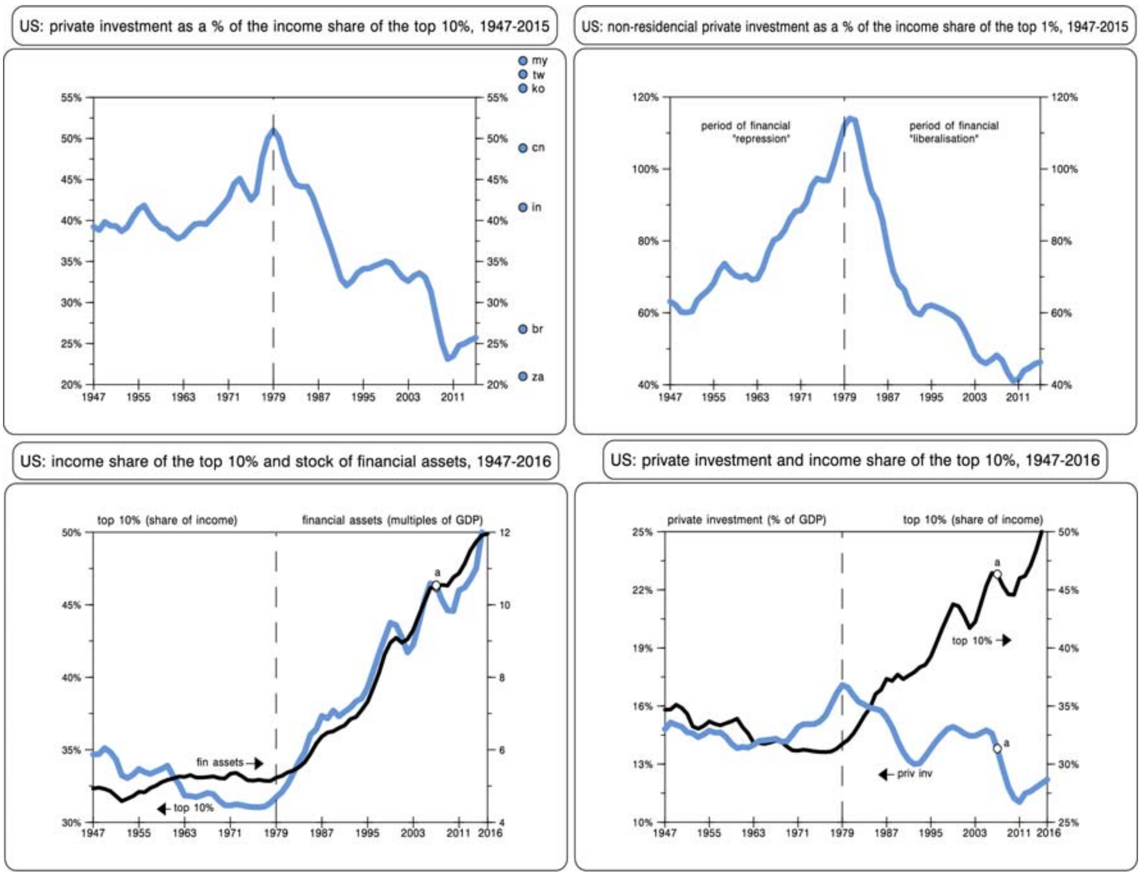
[90] https://www.ft.com/content/2a165852-90ae-11e8-b639-7680cedcc421

In sum, according to the chief economist of the Bank of England, the new environment brought about "corporate self-cannibalism" as an unholy alliance between a new breed of 'active' —i.e., bullying— shareholders and self-seeking executives, which has led to companies being dismantled, or condemned to debt, in order to increase immediate income. If shareholders used to demand about 10% of corporate profits, they now want it all (and more); and where they once kept shares for six years, they now keep them for less than six months, implying far less concern for the long-term health of the firm. For Keynes (1936), in contrast, the health of the corporate sector depends on building a relationship between shareholders and firms "like a marriage".

And on the QE-fuelled M&A frenzy —the biggest anti-competition drive ever (as already mentioned, over US$40tn across the world during its first decade)—, in three US$200bn M&As, Dow Chemical merged with DuPont, the Chinese company ChemChina bought the Swiss Syngenta, and Bayer bought Monsanto. And "The three new conglomerates [now] controlled more than 60% of the seed and agrochemical market, supplied almost all GMOs (genetically modified organisms), and [owned] the majority of patents on plants in the world."[91]

If the US had the same level of GDP as now, but its share of investment to GDP were as it was pre-Reagan —i.e., at the end of the "financial repression" era—, over US$ 1 trillion more would be invested per year. In fact, *net* private investment all but disappeared.[92] As Figure 9 indicates (top right-hand panel), non-residential private investment as a share of the income of the top 1% fell as if on a roller coaster —from nearly 120% at the time of Reagan's election to the low 40s during the alchemists' rule.

FIGURE 9



[91] Heinrich Böll Foundation (2017).

[92] BEA Data (2020).

• **fin assets**=stock of financial assets; **priv inv**=fixed private investment; and **a**=the 2008 financial crisis. Acronyms as per the internet domain codes of each country; in the top-left panel, Malaysia's current percentage is 77%; Taiwan's 74%; and Korea's 62%. 3-year moving averages.

• Sources: WID (2020) for income shares; FED (2020) for financial assets; BEA Data (2020) for private investment (includes equipment and non-residential structures); and WEO (2020) and WDI (2020) for the rest.

In turn, overall private investment as a percentage of the income share of the top 10% (top left-hand panel) has also fallen from 55% to about 25% during this period —or to a level similar to Brazil's. This is yet another indication of the US's (and other high-income OECD countries') "reverse catching up" with countries at the other side of the Rio Grande: —the higher the share of income appropriated by the top, the lower the proportion of that income that was returned to the economy in a productive manner.

Indeed, in many areas the US is now well ahead: the retirement assets of just 100 CEOs, for example, add up to as much as the entire retirement savings of more than 116 million people at the bottom of the pay scale.[93] And the ratio of CEOs' pay to that of average workers has rocketed —while CEO compensation has grown 940% since Reagan whereas that of the median worker has risen only 12%.[94] And the neo-liberal ideology has been most helpful in this endeavour.

And the wheels of QE financialisation keep turning. Private equity assets under management doubled to US$3tn between 2008 and the financial upheavals of February 2018;[95] and private equity managers have borrowed record sums during the pandemic, using ever riskier credit facilities.[96] In turn, credit mutual funds have tripled in size since the 2008 financial crisis. And as financialisation promises both to boost asset prices for ever, and always provide unlimited cheap finance, over a third of those buying homes in the US in 2017 made offers without even bothering to see the property in question —and in places with greater speculative frenzy, such as Los Angeles, the proportion reached more than half.[97]

And in 2020, financialisation has delivered the hottest possible August in global equities, and a record US$210bn issuance of corporate bonds; and September has just witnessed its biggest week for IPOs since Uber came to market. It did not seem relevant that in the second quarter of 2020, defaults of non-financial corporate bonds had already reached a record US$94bn (with the US accounting for nearly 75% of this), or that over US$13tn of bonds will come due through end-2021 in mature markets, and that emerging markets are in the same boat (see below).

Regardless of the above, "… there is a scramble to invest in nearly everything on offer".[98] An example of this 'anything goes' mania is the boom in special purpose acquisition vehicles, or Spacs, which are listed shells that hold no operating businesses but intend to acquire them in the future —currently there are "…tens of billions of dollars raised on little more than the hope that these plans for deals will come to fruition".[99] It brings to mind South Sea Bubble times,

---

93 www.ips-dc.org/wp-content/uploads/2015/10/Two-Retirements-final-pdf.pdf

94 EPI (2019).

95 https://www.ft.com/content/0a1067b0-1c9f-11e8-aaca-4574d7dabfb6

96 https://www.ft.com/content/dc264fab-90e3-4f29-89a9-66e20005af02

97 https://www.bloomberg.com/news/articles/2018-02-26/housing-frenzy-sees-a-third-of-u-s-buyers-bidding-sight-unseen

98 https://www.ft.com/content/dccbf77d-37ba-4405-99f2-91cce402c87c?desktop=true&segmentId=d8d3e364-5197-20eb-17cf-2437841d178a#myft:notification:instant-email:content

99 Ibid.

when speculators were successfully lured into putting money into "a company for carrying out an undertaking of great advantage, but nobody to know".[100] Also Gregor MacGregor, the Scottish confidence trickster who organised a government loan on the London Stock Exchange, and then sold via a reputable London bank land certificates, for a fictional Central American country.[101]

Paraphrasing the *FT* columnist quoted above, the pandemic has certainly not deterred "new suckers" —now these are even chasing junk-assets such as sub-prime mortgage bonds, which are (of course) back in fashion;[102] with credit default swap making a big comeback, "even though it is patently clear that they are not fit for purpose".[103] Meanwhile, banks raked record fees for their advice to companies on mergers and fundraising.

According to Minsky (1974), "A fundamental characteristic of our economy, is that the financial system swings between robustness and fragility, and these swings are an integral part of the process that generates business cycles".[104] Well, not anymore… Now it swings from fragility to fragility!

This booming liquidity has also found its way into emerging markets. With unlimited cheap finance, and asset prices (supposedly) going only up, many of them have also joined what the *FT* has called the 'everything rally'.[105] The IPO market in Brazil, for example, is on track for its biggest year since the 2007 Lula mania, already up 151%, and many more companies are in the pipeline.[106] And asset prices are also on the fast-track. And in Chile, while GDP was down by 14% (second quarter), unemployment at 3 million, and investment and domestic demand down by 20%, asset prices were again rising and mortgage rates were back at pre-pandemic record lows —while non-financial corporate debt is already the highest as a share of GDP among emerging markets, only China excepted.[107]

In this Keynesian "inverted-utopia", emerging markets can now finally unite, as they have nothing to lose but their real economy!

In the meantime, the IMF —now reduced to a mere fire-fighting role due to such abundance of liquidity everywhere— is calling for urgent action to prevent a major debt crisis in emerging economies, as there are some US$3.7tn in bonds and loans coming due through end-2020, and around US$7tn due through end-2021.[108] In fact, there has been a huge revival of emerging market's hedge funds ready to profit from buying bonds at distressed prices à la vulture funds, evoking memories of Elliott Management's US$2.4bn payday in 2016.[109] So the IMF "will be very firm on pushing for [emerging] countries to get discounts".[110]

---

[100] MacKay (1841).

[101] https://www.oxforddnb.com/view/10.1093/ref:odnb/9780198614128.001.0001/odnb-9780198614128-e-17519;jsessionid=BC7170BF32D3B56A689D2170CB476769

[102] https://www.ft.com/content/6478a8d6-32c3-11e8-b5bf-23cb17fd1498

[103] https://www.ft.com/content/a6cd6130-542f-11e8-b24e-cad6aa67e23e?tagToFollow=9100db92-d634-4c0e-aece-e2a59eada73b. Pope Francis has also criticised them for "encouraging the growth of a finance of chance, and of gambling on the failure of others, which is unacceptable from an ethical point of view" (quoted in https://www.ft.com/content/f966e8b4-945a-45d0-8391-a305b3d8f7f5).

[104] See also Minsky (1992).

[105] https://www.ft.com/content/2895520f-5d23-4add-a431-7cc954fb78a4

[106] https://www.ft.com/content/da448e33-f8a1-43d4-b910-99ded84670d7; and https://www.iif.com/Portals/0/Files/content/Research/Global%20Debt%20Monitor_July2020.pdf?

[107] Avdjiev, et al. 2020).

[108] Georgieva, et al. (2020); and IFF (2020).

[109] https://www.ft.com/content/d957180b-93da-482a-8683-d690ce20f267

[110] https://www.ft.com/content/f7157356-e773-47c4-b05d-8624a5ccfd03

In fact, rather than just 'pushing for discounts', what the IMF should be concentrating on is working towards an overhaul of the global monetary system, as the current ad hoc framework —which evolved in a piecemeal fashion after the breakdown of the Bretton Woods arrangement in the early 1970s — is not really a coherent system (as Ocampo, 2017, convincingly demonstrates).

Part of the problem everywhere is that this tsunami of liquidity is falling into markets that are regulated "lightly". One mainstream argument supporting this emerges from a "prisoners' dilemma". Such scenarios see naturally selfish individuals —entirely for their own selfish reasons— having great incentives to behave in the market in a way that is pleasant, tolerant and unenvious. So if those predestined to win are the *nice guys*, and as 'rational markets can take care of themselves', why worry about regulating financial markets in the first place?

'New Labour' Blair and Brown showed the way forward: they took away from the Bank of England the role of financial supervision and regulation, and created a new regulatory body as an 'independent non-governmental body' (i.e., a company limited by guarantee), financed by the financial services industry, with ex-bankers as Chairman and as Chief Executive Officer. Thus, New Labour found a rather ingenious solution for 'regulatory capture': if it's inevitable that lobbyists will succeed in capturing the regulators, why not make them the regulators in the first place?

No wonder that when Mrs Thatcher was asked, in one of her last interviews, what would she consider to be her finest political achievement, she answered: "Transforming Labour into New Labour". A great example of how neo-liberals succeeded in "manufacturing consent" among the 'new' left, in Chomsky's sense, for the purpose of hegemonic domination.[111]

In turn, as 'light-touch' regulation relaxes operating standards, corruption becomes ever more common. But stating that corruption is intrinsic in over-liquid and poorly regulated 'too-big-to-jail' financial markets is like going to the circus to watch a magician apparently sawing a person in half, and then complaining that it's only a trick.

But what else can one expect, if even the FED and the Bank of England have now apparently 'joined in'? While the EU took its largest-denomination bill out of circulation to combat money laundering, the FED has instead *doubled* the number of hundred-dollar bills in circulation since 2008 (to US$1.3tn), making it the most widely available dollar-note —even if people hardly ever carry them around to shop with… In other words, as the chair of the *FT* editorial board states, "in a supposed 'digital era', now there are 13 billion hundred-dollar bills stuffed into wallets, safes and suitcases globally helping hide transactions".[112] In turn, in the UK —another country that still issues large notes—, according to its National Audit Office (the spending watchdog), 70% of banknotes are 'missing' (i.e., not in regular circulation). And "No one really knows why or where all the money has gone".[113] (Yeah, right.) Then, while admitting that the notes could have been taken overseas by criminal gangs and tax evaders, it criticises the Bank of England for a lack of "reliable information". Even the Vatican's central administration office "invested some donations for the poor and needy in derivatives …as part of a bet [on whether a US corporation] would default on its debts".[114] At least the Pope stripped the culprit of his rights as a cardinal.[115]

---

[111] Herman and Chomsky (1988).

[112] www.ft.com/content/4caa021c-3f9d-11e9-9bee-efab61506f44

[113] https://www.nao.org.uk/report/the-production-and-distribution-of-cash/

[114] https://www.ft.com/content/f966e8b4-945a-45d0-8391-a305b3d8f7f5

[115] The key problem now with corruption and fraud is the little to fear from prosecution —if someone is convicted, instead of going to prison, he or she may just be sent back to

As Martin Wolf emphasises, "Rigged capitalism is damaging liberal democracy. … Economies are not delivering for most citizens because of weak competition, feeble productivity growth and tax loopholes … because of the rise of rentier capitalism". And he defines this as "economies in which market and political power allow privileged individuals and businesses to extract a great deal of rents from everybody else".[116] Mariana Mazzucato (2018) defines it in terms of a system in which the few live from extracting the value created by others. And in Palma (2019a), I emphasise a similar phenomenon: the fact that the preference of the élite (financial or otherwise) is now for getting rich by extracting value from those who actually create it.

We have reached a point where even the rentiers are getting anxious: the influential Business Roundtable —an organization of CEOs from the US's largest publicly listed corporations— is now advocating for fundamental reforms![117]

It is often acknowledged that the only historical legitimacy of capitalism —that is, the legitimacy of a small élite to appropriate such a large proportion of the social product— rests on that élite's capacity to use it productively. Keynes (1919), for example, discussing the (investment-intensive) 'Third Technological Revolution',[118] emphasises the contrast between the new rich in 'emerging' Germany and the US vs. the mature ones in Britain:

> The new rich of the nineteenth century … preferred the power which investment gave them to the pleasures of immediate consumption. … Herein lay, in fact, the main justification of the capitalist system. If the rich had spent their new wealth on their own enjoyments, the world would long ago have found such a régime intolerable.

There is not much danger of finding these enlightened characteristics in the current newly rich of the US or Europe (West or East), where new financial wealth is indeed spent mostly on their own 'enjoyments' —including, of course, at the financial casino. In contrast to what Keynes says about their counterparts from another epoch, in most of today's newly rich, it is the 'discreet charm' of the Latin American bourgeoisie that rules.

Meanwhile, high-income countries have seen productivity growth collapse since 2008 to about 0.5% p.a.; and emerging Asia —the eternal heretics of neo-liberalism— has used this opportunity presented to them to turn the table on the West:

> Germany once saw China as an export market for machinery with which China would develop its industrial base. Today, China is becoming the senior partner in the relationship. [Germany's] biggest problem is falling behind in the technological race. … [This] is symptomatic of a fundamental European problem. … [Now there] are signs that complacency is about to turn into panic.[119]

Surely it has not helped much in this respect that Germany has become even more unequal than China in terms of market inequality (Ginis of 52.1 and 46.9, respectively).[120] In fact, while its market Gini went up by 14 points on the Gini scale (see below), its share of investment in GDP collapsed from 30% to 20% (becoming similar to the average Latin American ratio since 1980), leading

---

university! A judge in Chile recently sent corporate executives convicted of a major tax fraud on a one-semester course in corporate ethics —on condition they got a passing grade…

116 https://www.ft.com/content/5a8ab27e-d470-11e9-8367-807ebd53ab77

117 https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans

118 On this third great surge of industrialization, that of the 'Age of Steel, Electricity and Heavy Engineering', see Pérez (2002).

119 www.ft.com/content/19fd8544-3c2f-11e9-b856-5404d3811663

120 SWIID (2020).

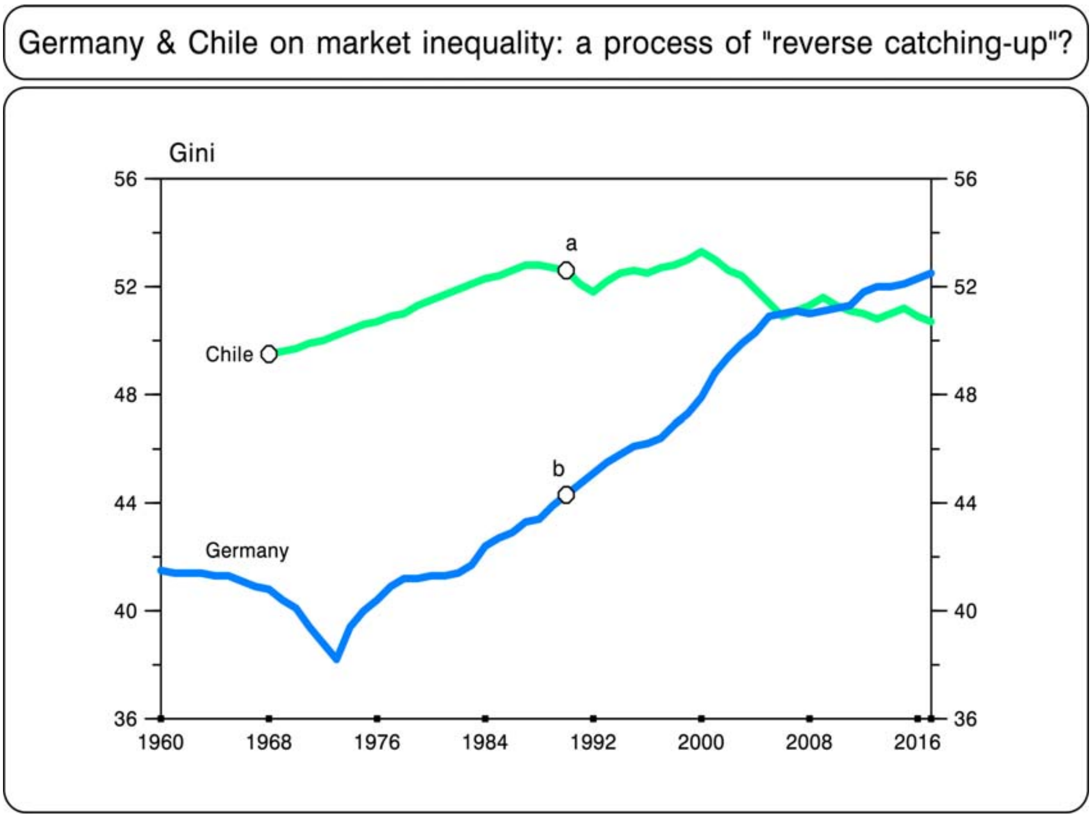
productivity growth to do the same from 5% p.a. to close to zero (again, similar to the Latin American average since 1980).[121]

4.- Financialisation and Inequality

The asymmetries between investment and inequality discussed above are as much the result of the weakness of the former as the vigour of the latter, as "all told, the primary effect of monetary policy since 2008 has been to transfer wealth to those who already hold long-term assets —both real and financial— from those who never will".[122]

Before the pandemic, the richest 1% was already appropriating over 80% of the world's new wealth, while the poorest half of humanity got next to nothing;[123] and in 2020 the former is on course to get it all. Financialisation has surely been part of the problem, as it has helped market inequality in the OECD to catch-up with Latin America (Figure 10.)

FIGURE 10



• Market Gini=Gini before taxes and transfers; a=return to democracy; and b=German reunification.

• Source: SWIID (2020). As this source (or similar ones) unfortunately does not provide information by deciles, it is not possible to work with the Palma Ratio methodology.[124]

---

121 See Palma (2019a).

122 https://www.ft.com/content/0048beea-766e-11e6-bf48-b372cdb1043a. The latter, although they surely have higher levels of education than their parents, now have minimal probabilities of generating their parents' income or wealth, and a high probability of having a number of other problems, such as higher debts of all kinds and worse pensions, along with a much lower probability of owning their homes (https://www.youtube.com/watch?v=3rF1W6vSqBc).

123 Oxfam (2018).

124 For a short animation of the Palma Ratio, see http://uncounted.org/palma/

It is remarkable how the election of Reagan and Thatcher, and the fall of that infamous wall, triggered among the OECD this reverse catching-up with the tropics, which including the 'bananisation' of their market inequality. As is well known, a key Washington Consensus promise was that if the package of policies and structural transformations that they preached were implemented, there would be a process of "convergence" across the world. That is, if everyone behaved, there would be a rapid process of closing the productivity gap between countries. And this convergence would not only occur in income per capita terms, but also in institutions, in inequality, and so on.

As the figure indicates, it seems the Washington Consensus was correct, in that market 'liberalisation', globalization and financialisation would lead to a process of convergence in the distribution of market income across the world —but in the opposite direction! This includes, of course, financial corruption.[125] It seems that in this neo-liberal world, Germany's famous gravity seems to have evaporated… Perhaps Schopenhauer's pessimism was more visionary than is usually acknowledged.

This 'upside-down catching-up' of the high-income OECD countries to highly unequal middle-income countries is one of the most characteristic stylised facts in Western economies since the neo-liberal reforms of the 1980s —and one of the least studied.[126] Basically, this so-called 'development' model, instead of encouraging Latin America to "Europeanise", has led the high-income OECD to "bananise" —with QE providing a helping hand.

In the introduction to one of his best-known works, Marx claimed that the most developed countries would show the most backward "the image of their future". For him, albeit for different reasons, the convergence would also be of the kind predicted by the Washington Consensus. If it ever was like this, it certainly is not anymore. Now we are all indeed converging in this neo-liberal era, but towards features characteristic of some highly unequal middle-income countries, such as mobile élites creaming off the rewards of economic growth (as they claim property rights over all of them in a new winner-takes-all scenario), and 'magic realist' politics that lack self-respect if not originality.

So now we see countries in Europe and the US (with Japan not far behind) with a market income distribution characteristic of a country on the other side of the Rio Grande; in fact, in this metric the US is already more unequal than Mexico (Ginis of 50.8 and 46.6, respectively);[127] and with a president who only lacks dark glasses to look like a little Mussolini from a banana republic. In fact, if the US had the same level of national income as now, but the level of inequality as when Reagan was elected, the top 1% would today be earning about *US$2tn less* than it actually does — a figure larger than Brazil's GDP. In the meantime, average hourly real earnings have been stagnant since Reagan's election.[128] No

[125] Deutsche Bank, Germany's largest lender, for example, was not only heavily involved in Danske's suspected €200bn money-laundering scandal, the world's biggest, but also conducted correspondent transactions of about US$600bn with the Cyprus-based FBME, one of the world's most corrupt banks (https://www.asiasentinel.com/p/deutsche-bank-pays-price-for-deep). It was also involved in a "mirror trading scheme", which laundered billions out of Russia. And (as mentioned above) according to the "FINCEN files", Deutsche Bank was one of the main banks that helped oligarchs, criminals and terrorists move billions (in fact, trillions) of illicit cash (FinCEN, 2020). See also https://www.ft.com/content/ac9295c9-b391-4e00-a367-0602bafc4dc2. For the fate of one of Deutsche whistleblowers, https://www.ft.com/content/0415b255-b844-4264-9b7c-ffc5aa5131f0

[126] For an analysis of this issue, see Palma (2019a and b), and Palma (2020b).

[127] SWIID (2020).

[128] https://www.pewresearch.org/fact-tank/2018/08/07/for-most-us-workers-real-wages-have-barely-budged-for-decades/

wonder that Pope Francis called unfettered free markets the "dung of the devil".[129]

Indeed, life in high-income OECD countries is now not as easy as their income per-capita might suggest, as one has not only a family to support but also a plutocracy. It is now even tempting to say "Welcome to the Third World".

5.- The Role of Large Institutional Investors

The remarkable increase in the concentration of the asset management industry was a key factor in the intensity of the asset-price inflation and the recurrent bouts of panics discussed above. According to Ben-David et al. (2020),

> …[increased] ownership by large institutions is associated with higher stock price volatility, autocorrelation in returns (a measure of price inefficiency), and a greater magnitude of price drops at times of market stress (a measure of price fragility).[130]

Then they add,

> …empirical evidence [shows] that ownership by large institutions predicts higher volatility and greater noise in stock prices as well as greater fragility in times of crisis.

This is why the fact that the 10 largest institutional investors now collectively own more than a quarter of the US stock market is so relevant. Concentration of ownership at this scale has pushed up the volatility of stocks held in their portfolios and added to the mispricings now embedded in shares. So it is hard to understand why US governments since Clinton (and Summers) have refused to classify them alongside big banks as "systemically important" financial institutions.

In finance, a 'roll-up' (as in a cigarette roll-up) is a strategy of buying lots of small companies in the same industry and combining them into a big one. And "the markets are attracted to [such] glow" as they often assign big companies a higher valuation than [the sum of] small ones".[131] However, this is part of the problem as smaller fund managers trade against each other, helping to cancel out their impact, while large institutions tend to trade massively *in just one direction* (Ibid.). Their impact on stock prices, therefore, is much larger than a collection of small institutions managing the same amount of assets. In fact, after examining regulatory filings between 1980 and 2016, the above study concludes that stocks with higher ownership by big institutional investors also registered larger price falls in periods of market turmoil as they engage in massive sales that depress stock prices. In other words,

> The correlated behaviour of big conglomerates, combined with the sheer size, has repercussions on asset price stability that are mostly felt during times of market stress.

Therefore, excessive concentration in the asset management industry poses *a systemic risk* —but so far, (captured) regulators and politicians turn a blind eye. Although Friedman's monetarist economics may be totally irrelevant today, his (equally obsolete) 'shareholder capitalism' doctrine still remains highly influential![132]

---

[129] Quoted in https://www.ft.com/content/645ab1f0-59fb-11e8-b8b2-d6ceb45fa9d0

[130] Ben-David et al. (2020).

[131] https://www.economist.com/finance-and-economics/2020/10/08/what-takeovers-of-fund-managers-tell-you-about-markets?utm_campaign=the-economist-today&utm_medium=newsletter&utm_source=salesforce-marketing-cloud&utm_term=2020-10-14&utm_content=article-link-3&etear=nl_today_3

[132] https://www.networkideas.org/news-analysis/2020/10/milton-friedman-versus-stakeholder-capitalism/

The usual counterargument is about large 'economies of scale in information', with big institutions passing on additional gains to their clients. However, since the larger the concentration in asset management, the larger the likely difference between the average and the marginal return in financial markets, there is a vicious circle of concentration; and the larger the concentration, the *lower* the necessity to pass on these gains to clients.

The real issue for regulators is how to balance the likelihood of increased profits by larger firms and clients with the costs of a larger systemic risk —i.e., of higher price volatility, market inefficiency and fragility; and with the increased power of larger firms to capture policy. I would argue that what came first in this conundrum is a no-brainer, as the lethal cocktail of market concentration with emasculated regulators helps financialisation becoming a crude form of market distortion. And as these distortions aim at stopping the law of gravity from working in finance, counterbalances such as diminishing returns never set in —so the larger the quantity of finance, the higher the returns. And free-market fundamentalists become cheerleaders of market distortions…

6.- When Emerging Markets Become 'the Wrong Place'

The main force behind current financial fragilities in emerging markets is the inevitable repercussions of the unprecedented surge of financial flows from the North. QE is not only distorting the underlying performance of advanced economies, but is also driving a tsunami of hot-money flows to the higher-yields South.

According to the Bank for International Settlements (BIS), in the first five years of QE alone, about US$7tn of those funds flooded emerging markets[133] —often after being leveraged into many multiples of their original value.[134] And this has lifted overall credit provided overseas in US dollars through bank loans and bonds by the staggering amount of nearly US$10tn.[135] In fact —and also according to BIS data— at end of 2019, non-financial corporations in 16 emerging economies had outstanding debts of US$29tn, up from less than US$11tn ten years before —and this was not just a China phenomenon, as this debt had also grown by 61% in the other 15 countries.[136] In Chile, for example, the foreign currency component of overall debt by non-financial corporations reached one-third of GDP, with the figure for Turkey at nearly 30% and for Mexico 21%. And in dollar terms, in 2019 it had reached well over US200bn in Brazil and in Mexico, and about US$100bn in Chile.

In Chile most of these funds were used to finance capital flight through shifting new productive capacities to neighbouring countries. So the assets emerged abroad while the passives were kept at home, with policy-makers cheering it all on… Given that the purely extractive model has long been exhausted at home, big corporations faced a clear choice: take on the challenge of an upwards diversification of their extractive model, or keep doing more of the same in the form of horizontal diversification in neighbouring countries. That is, either upgrade the extractive model to the industrialisation of commodities, towards a green new deal and so on, or keep doing more of the same simple

133 http://www.ft.com/cms/s/0/46f42c36-8965-11e5-90de-f44762bf9896.html#axzz3rjS3sytj

134 See, for example, Lavigne et al. (2014); and McCauley et al. (2015).

135 Avdjiev et al. (2015); McCauley et al. (2015).

136 Avdjiev et al. (2020).

extractive and service activities somewhere else.[137] No prizes for guessing what they chose, in a country plagued by neo-phobia.[138]

The irony of this tsunami of funds towards the South is that it was fuelled by funds released by the FED, followed later by the Bank of England, the European Central Bank and the Bank of Japan, to help reduce their systemic risks, and to reactivate their domestic economies. But as the President of the Federal Reserve Bank of Dallas reminds us (quoted as an epigraph above), QE was instead stubbornly going its own way:

> In my darkest moments I have begun to wonder if the monetary accommodation we have already engineered might … be working in the wrong places. Far too many of the large corporations I survey … report that the most effective way to deploy cheap money raised in the current bond markets or in the form of loans from banks, beyond buying in stock or expanding dividends, is to invest it abroad …[139]

I would argue (and not just because I come from one of those 'wrong places' myself), that this QE-led flood of liquidity has shown everything that is wrong with the current process of financialisation: instead of helping to open up much needed new productive opportunities, it has fuelled the 'anything but productive diversification' bubble in places such as Latin America and South Africa (Africa's honorary Latin American country). Thus, while capital flight, M&A, stock-prices and any other conceivable financial assets were thriving, in the real economy the only things that benefited were more of the same residential construction and commodity extraction.[140]

There were several routes by which QE did its 'reverse emigration' to the South; one involved the FED buying US Treasury bonds from financial corporations such as pension funds, institutions that hold them as long-term assets with low but dependable yields. By doing this, the FED raised bond prices and lowered yields, sending restless asset managers in search of higher yields to the South. Another was that QE-liquidity also found its way to funds that use their leverage capabilities to increase the (often highly destabilising) ability of speculators to navigate shifting emerging markets with bull and bear flexibility. Funds with highly leveraged cash also sought high returns by scalping emerging markets with activities such as the carry trade[141] —and since instruments such as credit cards in places like Brazil have reached an average interest rate of 240% p.a. (up to 490% p.a. at HSBC), returns are astronomical.[142] All this, of course, were able to only remain one-way bets so long as exchange rates in emerging markets and other 'automatic destabilisers' acquiesced.

In other words, when international financial markets found themselves with excess liquidity and a shortage of solid financial assets, they rediscovered developing countries for the former —and transformed them in their "market of last resort"—, while also making commodities their "financial assets of last resort".[143] It may not be the first time that this has happened, but the South has seen nothing like this before!

This phenomenon is like international finance being forced (by excess liquidity) to switch from "redlining" emerging markets to "reverse redlining"

---

[137] On how to industrialise around natural resources, see Perez (2015).

[138] On this "fear of the new", see https://www.ineteconomics.org/perspectives/blog/chiles-outburst-of-discontent

[139] http://www.dallasfed.org/news/speeches/fisher/2010/fs101007.cfm

[140] On the political economy impact of the pandemic in the 'wrong places', see Palma (2020b).

[141] Borrowing in currencies where interest rates are low and placing the proceeds where they are high.

[142] https://www.ft.com/content/6de7d288-d745-3325-9cee-bbd7bf6d4d20

[143] Palma (2016).

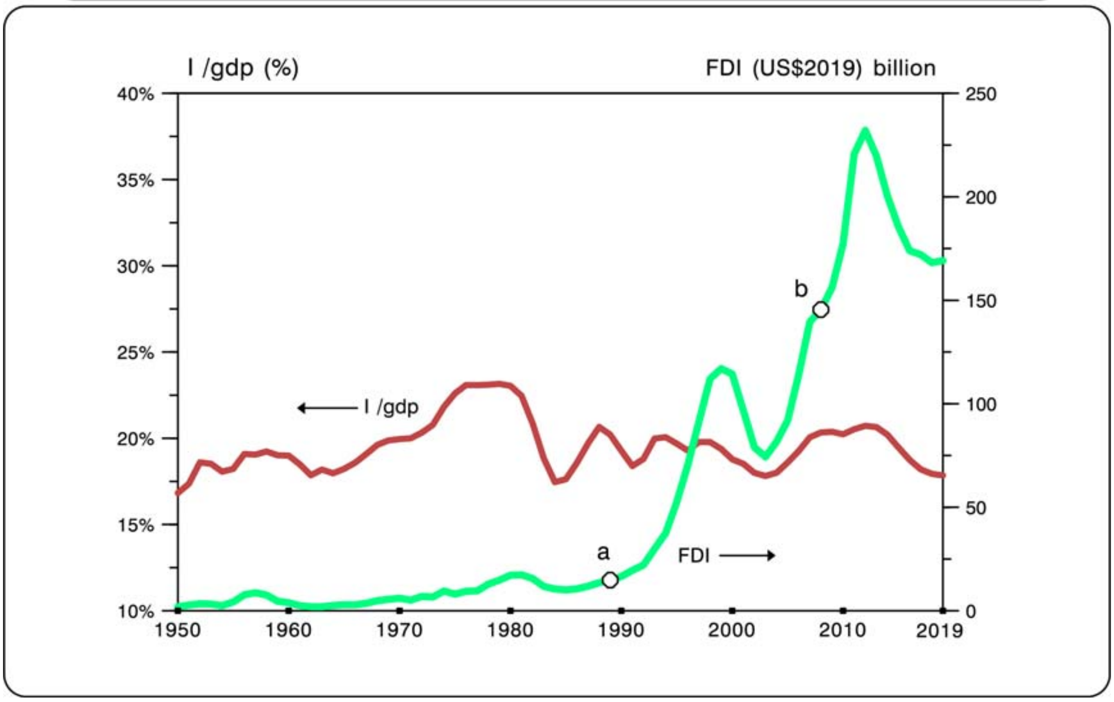
them; that is, having to switch finance from being "sellers' markets" that treats the South with some contempt, to being forced to target them affably ("buyers' markets").[144]

In terms of domestic absorption, Central Banks in developing countries, by taking these foreign assets on to their balance sheets, also had to create liabilities. So they printed money, and sometimes sold bonds to sterilise. But when fresh cash made its way into the local banking system, they could then lend more — multiples of those amounts, actually (about four times in Brazil, eight times in Malaysia and 10 times in Chile).[145]

Foreign direct investment was another route for QE to find its way into emerging markets; with often up to half being just intra-company loans.[146] In Asia, as opposed to Latin America and South Africa, some of it did end up helping to increase productive capacities, but inevitably some also just added liquidity to China's shady shadow banking. In the case of Latin America, the QE-related surge of FDI seems to be having as little impact on investment as possible.[147] (Figure 11.)

FIGURE 11

LATIN AMERICA: investment as % of GDP and FDI infows, 1950-2019



● a=Brady Bonds and beginning of financial liberalisation; and b=beginning of QE.

● Source: ECLAC (2020).

Despite FDI inflows since the 1989 'Brady Bonds' of no less than US$3.6tn (US$2.2 since the beginning of QE), Latin America's investment rates remained unmoved at their low historical rates.[148] Part of the problem, of course, is the nature of that FDI: researchers at the IMF and the University of Copenhagen have

---

[144] In the US, 'redlining' is used to refer to the systematic denial of various services to neighbourhoods with a high proportion of minority groups.

[145] Palma (2009).

[146] Avdjiev et al. (2014).

[147] In Latin America, Mexico is a partial exception due to NAFTA.

[148] Palma (2010).

shown that the purpose of a large share of FDI is simply to minimise multinationals' global tax bill, ending up in empty corporate shells with no real business activities in the host nation. As the report concludes, "Globally, phantom investments amount to an astonishing $15 trillion, or the combined annual GDP of economic powerhouses China and Germany".[149] In other words, almost 40% of global FDI is phantom, with their contribution to the local economy limited to buying tax advisory, accounting and other financial services —as well as for keeping politicians sweet.

In fact, in 'FDI-intensive' Brazil and Mexico, investment per worker *has been below its 1980 level* ever since —i.e., for 40 years! The same is true for almost all countries of the region.[150] Meanwhile, in emerging Asia, Korea increased this statistic by a factor of 5, India by 8 and China by more than 20 (and according to some sources by nearly 30) —perhaps one can have too much of a good thing!

With such poor investment performance it is no surprise that according to the economic complexity index (ECI), some Latin American countries —given their levels of income per capita—, are among the least diversified economies in the World (and none worse than Chile).[151]

While in Latin America, investment has struggled to reach even 20% of GDP since the neo-liberal reforms —less than half China's levels— its GDP-share of household consumption is currently twice that of China. Needless to say, both China and Latin America now urgently need to rebalance their growth, but in opposite directions!

Although these huge FDI inflows, as well as foreign bank loans and portfolio inflows, may have had a negligible positive impact on investment rates, they did certainly have a major negative one on the current account of the balance of payments (Figure 12). Considering only those associated with FDI since 2002, when commodity prices began their meteoric rise, nearly US$2tn has left the region in the form of profit repatriation (with those of portfolio investment and "other" reaching almost US$1.5tn).

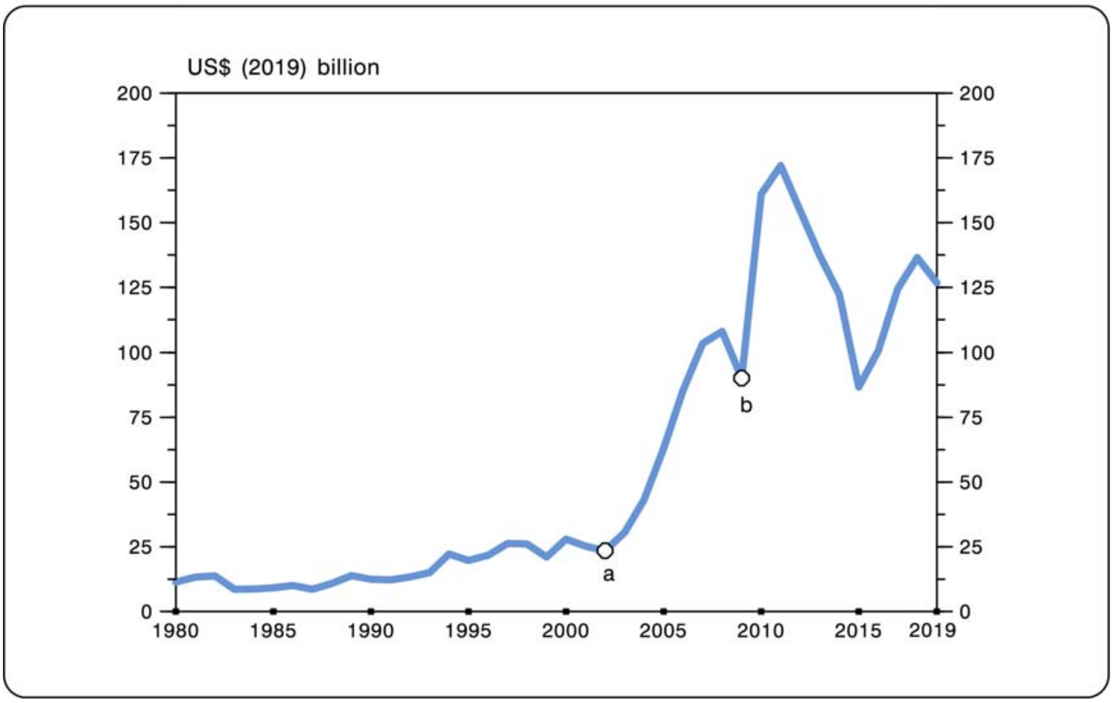
[149] IMF (2019).

[150] Palma (2019b).

[151] See ECI (2020; and Palma (2019b).

FIGURE 12

LATIN AMERICA: profit repatriation by FDI, 1980-2019



● a=Brady Bonds and beginning of financial liberalisation in most countries of the region; and b=beginning of QE.

● Source: ECLAC (2020).

In the case of Chile, for example, profit repatriation by FDI between 2002 and 2014 alone was larger than the stock of the entire retirement account savings of all Chilean workers (more than 10 million people), who have no choice but be affiliated to the (draconian) private pension fund system (AFPs)[152] —about US$190 billion versus about US$160 billion, respectively. The former is also larger than the entire Marshall Plan! And just in terms of what Sturla et al. (2016) call "gratuitous rents", the figure for just 10 copper multinationals reaches US$120bn between 2005 and 2015 —with no royalties paid for those rents, as the supposed 'royalty' in existence is just a farce (while its *gross* revenue represents less than 1% of copper exports, its *net* amount (i.e., when the tax concessions given in exchange for having dared imposing this minimal royalty are deducted) is not significantly different from zero. What hypocrisy! A great example of having a policy so as not to have a policy —of having a 'royalty' so as not to have a royalty…[153]

And all that for the great inconvenience of exporting copper concentrates —a mud with a metal content of about only 30%, which is the result of a rudimentary flotation of the pulverized raw copper ore. All this gives a whole new

[152] Chile's private pension system promised 70% income replacement, but the median pension is on its way to be just 15% of the final salary! (www.nytimes.com/2016/09/11/world/americas/with-pensions-like-this-315-a-month-chileans-wonder-how-theyll-ever-retire.html). In fact, the current average monthly pension does not even reach the minimum wage; and in 2018, 125 thousand people retired within the AFPs' system, and half of them did so with less than a fifth of a minimum wage (Fundación Sol, 2020; and Palma, 2019b). In the meantime, exorbitant fees, hidden charges and so on generate massive profits for pension providers (CENDA, 2019).

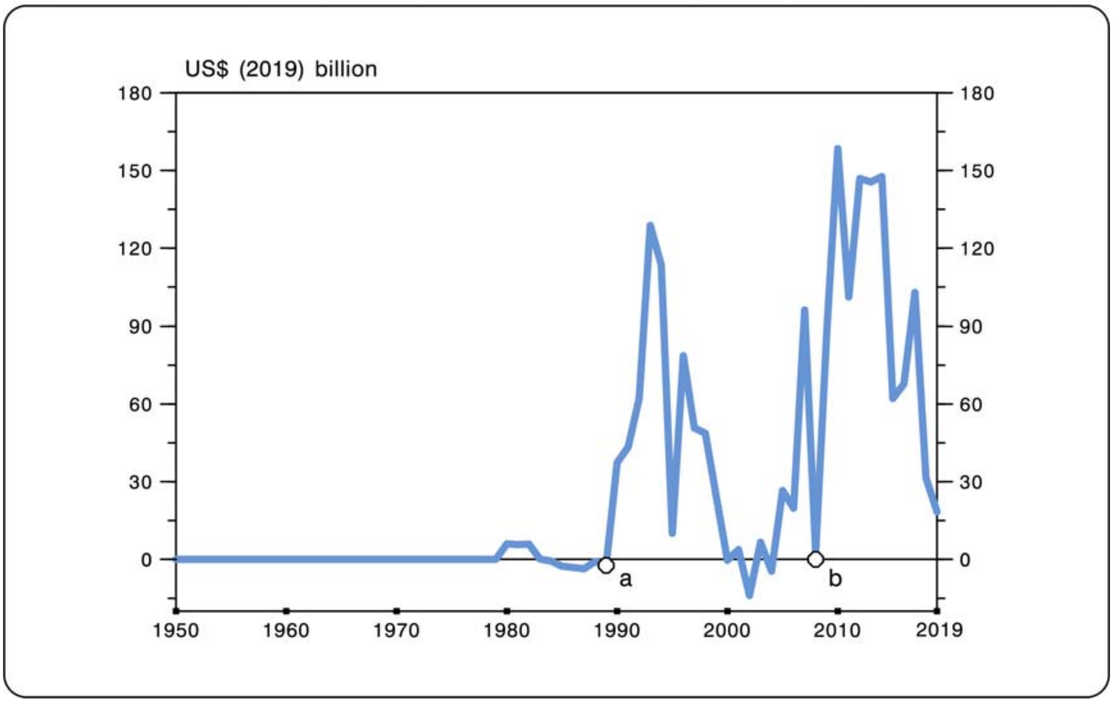
[153] See Palma (2019b).

meaning to the concept of ‘picking just the low-hanging fruit’ —and to gratuitous environmental damage.[154]

In turn, huge volatilities in portfolio inflows brought in an extra degree of macroeconomic uncertainty. (Figure 13.)

FIGURE 13

Latin America: portfolio inflows, 1950-2019



• a=Brady Bonds; and b=beginning of QE.

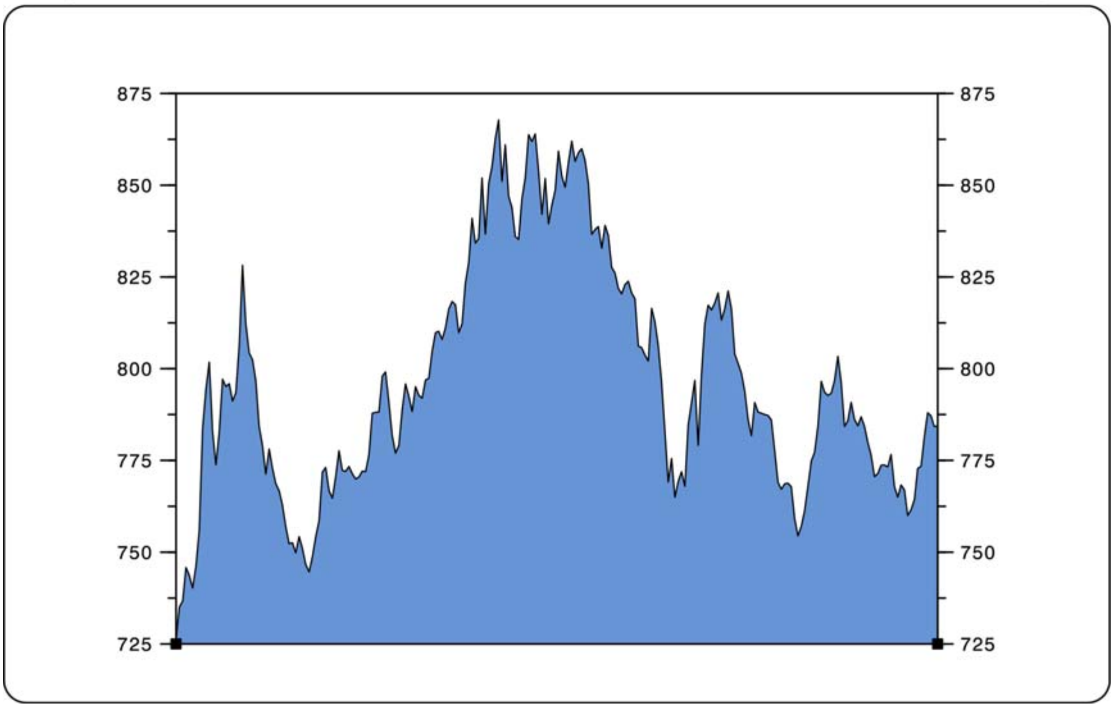
• Source: ECLAC (2020).

These pretty much socially useless and destabilising inflows not only reached US$1.8tn since the Brady bonds (and over US$1tn since QE), but they also had a coefficient of variation of 0.86 per year! For monetary authorities, this was macroeconomic instability on steroids, and domestic and pandemic-related shocks did not help either. But since they think that their main aim in life is to keep speculators sweet, they threw in the towel and left the exchange rate at the mercy of the storm. (Figure 14.)

[154] Over a thousand cargo ships sail each year from Chile with concentrates; but as this only contains about 30% of the mineral, an equivalent of more than 700 are sailing with just slag —making it Chile’s largest export product by volume! See Palma (2019b); on an estimate of the huge and unnecessary pollution associated to it, see Sturla et al. (2019).

FIGURE 14

Exchange rate between Chilean Peso and US Dollar, October 2019 - September 2020



● Source: Banco Central de Chile (2020).

No need to restate here the huge negative impact of this exchange rate instability on investment and economic diversification.

In sum, emerging markets as a whole already owe a total of US$71tn;[155] and their non-financial corporates' debt (at nearly 100% of GDP) is greater than was found in developed markets in the build-up to the 2008 financial crisis. In fact, since many of the commodity producing economies simply assumed that the commodity-price boom would last forever ('this time it's different'), they adjusted their permanent income expectations accordingly. In Chile, for example, consumption jumped from 65% of GDP in 2006 to no less than 76% in 2014 (at the end of the commodities' "super-cycle") —with consumption of durable goods more than doubling in just 7 years (2006-2913), and household debt increasing from 28% to 40% of GDP.[156] In such a scenario, a consumption binge can easily be mistaken for prosperity.

And Chile was not alone among emerging markets in mortgaging (highly optimistic) expected higher income streams by embarking on domestic credit and consumption booms that have left many of these countries with serious debt hangovers and rusty productive capacities. According to the IIF, pre-pandemic overall emerging market debt reached 220% of GDP —and in mature (geriatric?) economies, debt-to-GDP reached 380%, with global debt soaring to a record high of US$258 tn at the end of 2019.[157] It is difficult even to imagine what this figure will be once the pandemic is over —for the time being, we know that the Eurozone budget deficit for this year is going to be 10 times higher than last

[155] https://www.ft.com/content/f7157356-e773-47c4-b05d-8624a5ccfd03

[156] Banco Central de Chile (2020).

[157] IIF (2020).

year's level, reaching €1tn (or 9% of GDP —with Spain, Belgium, Italy and France above 10%).[158]

From this perspective, the paradox is that QE was designed to help reduce systemic risks in mature economies, not to enable the build-up of a huge debt-bubble in emerging markets in both cross-border lending and in bank lending, with the former now at serious risk of currency mismatches, and the latter of liquidity mismatches. Accordingly, a credit crunch could mean a corporate dollar-debt crisis due to the former, and/or a domestic banking one to the latter.

In actual fact, pandemic apart, we should not expect a demand-led recovery in Latin America or South Africa unless a robust set of linkages between financial markets and the real economy is re-established (*à la* FDR). As Keynes (1930) said at the time of the crash:

> …there cannot be a real recovery, in my judgment, until the idea of lenders and the idea of productive borrowers are brought together again…

But try to get speculators, traders and rentiers —or politicians in need of campaign financing, for that matter— to understand, when their earnings, bonuses, share options and corporate-sponsored retirement plans depend on their not understanding it.

This is the fundamental problem with the current neo-liberal model: there are not many ways to reshape the structure of a 'system' with so little entropy (as it were), as there are few ways in which one can redesign its structure (to allow it to move 'forward' in time), if one can't change its fundamentals: that those at the top continue to appropriate such an absurd share of national income and wealth, engaging in the same low-hanging-fruit activities. Hence its structural rigidity.

The stakes for emerging markets' corporations, their real economies and financial markets, and their wider society could scarcely be higher, and these challenges are happening at the worst possible time, as our social imagination has seldom been so barren.

Add the pandemic to this, and (quoting the great poet Camões on the Portuguese sailors of the 1500s) surely we are now "em mares nunca dantes navegados" – on hitherto unsailed seas.

Conclusions

When Charles Kindleberger gave me a copy of his famous book, he wrote on the first page —and in big letters— "Avoid manias"! If one adds to this Keynes's key policy recommendation in this area, "Let finance by primarily national",[159] and also the policy implications of Minsky's (1986) proposition that "a capitalist economy is inherently flawed because its investment and financing processes introduce endogenous destabilizing forces", the key message emerging from the events analysed in this paper becomes clear: if you do the opposite, as still preached by recalcitrant neo-liberal zealots and by the lobby of powerful special-interest groups, and as practised by uninspired 'new alchemists' and frantic speculators (who know the price of everything but the value of nothing), then (paraphrasing a *FT* columnist) finance becomes "science fiction", a (it's-not-meant-to-make-sense) "gigantic global joke".

Perhaps, just perhaps, it is finally becoming 'common sense' (from a Gramscian perspective)[160] that the ever-increasing financialisation that has characterized the global landscape since Reagan and Thatcher has been an

[158] https://www.ft.com/content/5579361f-5aac-4cd3-9e93-190fffdc0baf

[159] Keynes (1933).

[160] On 'common sense', see Gramsci (1987).

entirely self-constructed and highly distorting market failure —and a distributional one, too.

If this perpetual mania were allowed to continue with its decadent frenzy, the damage to the real economy (and almost everything else for that matter) could lead to a situation resembling Cesar Vallejo's presage: "…you can't play [manically] anymore, because the Earth is already like a dice corroded and rounded from rolling without restraint; and now it can end up only in a hollow place, in the hollow of a deadly void".[161]

Theodore Roosevelt (1913) was surely right when he stated that "Of all forms of tyranny, … the most vulgar is the tyranny of mere wealth, the tyranny of a plutocracy."

[161] From the poem "Los Dados Eternos"; my translation.

Bibliography

Andreoni, A and JH Chang (2019), 'The political economy of industrial policy: structural interdependencies, policy alignment and conflict management', SCED, 48(March).

Avdjiev, S, M Chui and H Song Shin (2014), 'Non-financial corporations from emerging market economies and capital flows´, *BIS Quarterly Review*, December.

Avdjiev, S, P McGuire and G von Peter (2020), 'International dimensions of EME corporate debt', *BIS Quarterly Review*, June.

Banco Central de Chile (2020), Statistics, https://www.bcentral.cl/en/areas/statistics BEA Data (2020), Bureau of Economic Analysis, https://www.bea.gov/data

Ben-David, I, F Franzoni, R Moussawi and J Sedunov (2020), 'The Granular Nature of large institutional investors', *NBER Working Paper* 22247, https://www.nber.org/papers/w22247.pdf

Borio, C, M Drehmann and D Xia (2018), 'The Financial Cycle and Recession Risk', *BIS Quarterly Review* December.

Buchanan, JM (1993), *Property as a Guarantor of Liberty*, Elgar.

CENDA (2019) 'Presentación a la Cámara de Diputados. https://docs.google.com/document/d/1KTNG2bmWE-5GW210Nj1Xjvpme9T3Aea6Ddkp2T80DjM

Chang, HJ, and R Rowthorn (eds.) (1995), *The Role of the State in Economic Change*, OUP.

Collins, C and H Hoxie (2018), *Inherited Wealth Dynasties of the United States*, Institute of Policy Studies. Also https://inequality.org/wp-content/uploads/2018/11/Billionaire-Bonanza-2018-Report-October-2018.pdf

ECLAC (2020), Statistics and Indicators, https://estadisticas.cepal.org/cepalstat/WEB_CEPALSTAT/estadisticasIndicadores.asp?idioma=i

ECI (2020), 'The Economic Complexity Index', https://oec.world/en/rankings/country/eci/

EPI (2019), CEO compensation has grown 940% since 1978, https://www.epi.org/publication/ceo-compensation-2018/

FED (2020), *Data*, https://www.federalreserve.gov/data.htm

FinCEN Files (2020), 'Global banks defy U.S. crackdowns by serving oligarchs, criminals and terrorists', https://www.icij.org/investigations/fincen-files/global-banks-defy-u-s-crackdowns-by-serving-oligarchs-criminals-and-terrorists/

Foucault, M (1979), *Truth and Power*, https://www2.southeastern.edu/Academics/Faculty/jbell/foucaulttruthpower.pdf

Fundación Sol (2020), Nuevo Sistema de Pensiones para Chile, https://www.fundacionsol.cl/cl_luzit_herramientas/static/adjuntos/6649/Propuesta%20Pensiones%20Modelo%20Actuarial%20(2020)(1).pdf

Georgieva, K, C Pazarbasioglu, and R Weeks-Brown (2020), 'Reform of the International Debt Architecture is Urgently Needed', https://blogs.imf.org/2020/10/01/reform-of-the-international-debt-architecture-is-urgently-needed/

Gramsci, A. (1987), *Selections from the prison notebooks*, Lawrence & Whishart.

Heinrich Böll Foundation (2017), 'Monsanto and Co: From seven to four – growing by shrinking', https://www.boell.de/en/2017/10/31/monsanto-and-co-from-seven-to-four-growing-by-shrinking

Herman, ES and N Chomsky (1988), *Manufacturing Consent*, Pantheon Books.

IIF (2020), *Global Debt Monitor*, https://www.iif.com/Portals/0/Files/content/Research/Global%20Debt%20Monitor_July2020.pdf?

IMF (2019), 'The Rise of Phantom Investments', https://www.imf.org/external/pubs/ft/fandd/2019/09/the-rise-of-phantom-FDI-in-tax-havens-damgaard.htm

Keynes, JM (1919), *The Economic Consequences of the Peace*, Harcourt.

Keynes, JM (1930), 'The Grand Slump of 1930', in *Essays in Persuasion*, vol. XI , Macmillan.

Keynes, JM (1933), 'National Self-Sufficiency', *The Yale Review*, 22(4), https://www.mtholyoke.edu/acad/intrel/interwar/keynes.htm

Keynes, JM (1936), *The General Theory of Employment, Interest and Money*, Palgrave.

Khan, M (2015), 'The Role of Industrial Policy: Lessons from Asia', https://eprints.soas.ac.uk/19849/1/Ch5%20Role%20of%20Industrial%20Policy%20Lessons%20from%20Asia.pdf

Kindleberger, C (2005) *Manias, Panics, and Crashes: A History of Financial Crises* (5th edn), Wiley.

Krueger, AB (2012), 'The Rise and Consequences of Inequality in the United States', https://obamawhitehouse.archives.gov/sites/default/files/krueger_cap_speech_final_remarks.pdf

Lavigne, R, S.Sarker and G Vasishtha (2014), 'Spillover Effects of Quantitative Easing on Emerging-Market Economies', *Bank of Canada Review*, Autumn.

Lombardi, MJ, M Madhusudan and I Shim (2017) 'The Real Effects of Household Debt in the Short and Long Run', *BIS Working Papers* 607.

Łukasz, L and LH Summers (2019), 'On Falling Neutral Real Rates, Fiscal Policy, and the Risk of Secular Stagnation', *BPEA*, https://www.brookings.edu/wp-content/uploads/2019/03/On-Falling-Neutral-Real-Rates-Fiscal-Policy-and-the-Risk-of-Secular-Stagnation.pdf

McCauley R, P McGuire and V Sushko. (2015), 'Dollar credit to emerging market economies', *BIS Quarterly Review*, December

MacKay C 1841), *Extraordinary Popular Delusions and the Madness of Crowds*, Harriman House.

Mian, A, A Sufi and E Verner (2017), 'Household Debt and Business Cycles Worldwide', *Quarterly Journal of Economics* 132(4).

Minsky, HP (1974), 'Our Financial System is Fragile', https://digitalcommons.bard.edu/hm_archive/275/

Minsky, HP (1986), *Stabilizing an Unstable Economy*, McGraw-Hill

Minsky, HP (1992), *The Financial Instability Hypothesis*, http://www.levy.org/pubs/wp74.pdf

Nasdaq (2020), Indexes, https://www.nasdaq.com/market-activity/indexes

Ocampo, JA (2017), *Resetting the International Monetary (Non)System*, OUP (open access).

Ostry, JD, A Berg and CG Tsangarides (2014) 'Redistribution, Inequality, and Growth', *IMF Staff Discussion Note* SDN/14/02, www.imf.org/external/pubs/ft/sdn/2014/sdn1402.pdf

Oxfam (2018), 'Richest 1 percent bagged 82 percent of wealth created last year - poorest half of humanity got nothing', https://www.oxfam.org/en/press-releases/richest-1-percent-bagged-82-percent-wealth-created-last-year-poorest-half-humanity

Palma, JG (2009), 'The Revenge of the Market on the Rentiers. Why neo-liberal reports of the end of history turned out to be premature', *CJE* 33(4). Also http://www.econ.cam.ac.uk/research/repec/cam/pdf/cwpe0927.pdf

Palma, JG (2010), 'Why has productivity growth stagnated in most Latin American countries since the neo-liberal reforms?', in JA Ocampo and J Ros (eds.), *The Oxford Handbook of Latin American Economics*, OUP. Also http://www.econ.cam.ac.uk/research/repec/cam/pdf/cwpe1030.pdf

Palma, JG (2012), 'How the full opening of the capital account to highly liquid financial markets led Latin America to two and a half cycles of 'mania, panic and crash', in G Epstein and M H Wolfson (eds.), *The Handbook on the Political Economy of Financial Crises*, OUP. Also http://www.econ.cam.ac.uk/research/repec/cam/pdf/cwpe1201.pdf

Palma, JG (2016), 'Why corporations in developing countries are likely to be even more susceptible to the vicissitudes of international finance than their counterparts in the developed world: A Tribute to Ajit Singh', in *Economic and Labour Relations Review*, 2016. Also http://www.econ.cam.ac.uk/research/repec/cam/pdf/cwpe1539.pdf

Palma, JG (2019a), 'Behind the Seven Veils of Inequality. What if it's all about the Struggle within One Half of the Population over just One Half of the National Income?', "Development and Change Distinguished Lecture", *Development and Change*, 50(5). Available (open access) at https://onlinelibrary.wiley.com/doi/pdf/10.1111/dech.12505

Palma, JG (2019b), 'The Chilean economy since the return to democracy in 1990. On how to get an emerging economy growing, and then sink slowly into the quicksand of a "middle-income trap"', in M Llorca, and R Miller, *A New Economic History of Chile*, (forthcoming), http://www.econ.cam.ac.uk/research-files/repec/cam/pdf/cwpe1991.pdf

Palma, JG (2020a), 'How to create a financial crisis by trying to avoid one: the Brazilian 1999-financial collapse', forthcoming, *Brazilian Journal of Political Economy*. A previous version can be found in http://www.econ.cam.ac.uk/research/repec/cam/pdf/cwpe1301.pdf

Palma, JG (2020b), América Latina en su "Momento Gramsciano". Las limitaciones de una salida tipo "nueva socialdemocracia europea" a este impasse', *Trimestre Económico*, LXXXVII(348).

Pérez, C (2002), *Technological Revolutions and Financial Capital*, Elgar.

Perez, C (2015), 'The new context for industrializing around natural resources'. http://technologygovernance.eu/files/main/2015070612040808.pdf

Philippon, T (2019), *The Great Reversal. How America Gave Up on Free Markets*, HUP.

Rogoff, K (2020), 'The Stock-Market Disconnect', https://www.project-syndicate.org/commentary/stock-market-disconnect-covid-sparing-publicly-traded-firms-by-kenneth-rogoff-2020-10

Roosevelt, T (1913), *Theodore Roosevelt: An Autobiography*, The Macmillan Company.

Sobel, R (1965), *The Big Board: A History of the New York Stock Market*, Free Press.

Sodré, I (2015), 'The perpetual orgy: hysterical phantasies, bisexuality and the question of bad faith', in I Sodré *Imaginary Existences. A psychoanalytical exploration of phantasy, fiction, dreams and daydreams*, Ed. by P Roth, Palgrave.

Saez, E and G Zucman (2016), 'Wealth Inequality in the United States since 1913: Evidence from Capitalized Income Tax Data', *QJE* 131(2).

S&P Dow Jones Indices (2020), *S&P 500*, https://www.spglobal.com/spdji/en/indices/equity/sp-500/#data

Stiglitz, JE and A. Weiss (1981), 'Credit Rationing in Markets with Imperfect Information', *AER* 71(3).

Stiglitz, JE (2018), 'The Myth of Secular Stagnation', *Project Syndicate*, https://www.project-syndicate.org/commentary/secular-stagnation-excuse-for-flawed-policies-by-joseph-e-stiglitz-2018-08?barrier=accesspay

Sturla, G, S Zerene, O Accorsi, RE López, and E Figueroa (2016), Nuevas estimaciones de la riqueza regalada a las grandes empresas de la minería privada del cobre: Chile 2005-2014, http://repositorio.uchile.cl/bitstream/handle/2250/143401/Nuevas-Estimaciones.pdf?sequence=1&isAllowed=y

Sturla, G, S Zerene, E Figueroa, M Sturla (2019), 'Reducing GHG global emissions from copper refining and sea shipping of Chile's mining exports: A world win-win policy, https://www.sciencedirect.com/science/article/pii/S030142071830151X

Summers, LH (2018), 'Setting the Record Straight on Secular Stagnation', *Project Syndicate*, https://www.project-syndicate.org/commentary/response-to-stiglitz-attack-on-secular-stagnation-by-lawrence-h--summers-2018-09?barrier=accesspay

SWIID (2020), *The Standardized World Income Inequality Database*, https://fsolt.org/swiid/

Tobin, J (1978), 'A Proposal for International Monetary Reform', *Eastern Economic Journal*, 4 (3–4).

Wade, RH (1998), 'From 'miracle' to 'cronyism': explaining the Great Asian Slum', *CJE* 22(6).

WDI (2020), *World Development Indicators*, https://databank.worldbank.org/source/world-development-indicators

WEO (2020), *World Economic Outlook Database*, www.imf.org/external/pubs/ft/weo/2018/01/weodata/index.aspx

WID (2020), *World Inequality Database*, https://wid.world/