UNIVERSITY OF CAMBRIDGE
Faculty of Economics

CAMBRIDGE WORKING PAPERS IN ECONOMICS

Financialisation as a (it's-not-meant-to-make-sense) gigantic global joke

On how easy rents lead to lazy elites (and a 'latinoamericanised' West); on perpetual manias; on how theory and policy confuse 'means' with 'ends'; and on emerging countries as "financial markets of last resort

José Gabriel
Palma

Abstract

This paper analyses events in financial markets since the 2008 financial crisis in both the developed and the developing worlds, giving especial attention to the processes of 'financialisation'; that is, to the combined effect of the growing size and dominance of the financial sector relative to the non-financial sector, and the diversification towards financial activities in non-financial corporations. The main conclusion is that we are paying the price (and a huge one) for two related phenomena; one belongs to the realm of ideology and knowledge, the other to 'power play'.

Reference Details

CWPE	2211
Published	11 February 2022
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, E51, F02, F21, F32, F40, F63, G15, G20, G30, L51, N20, O16
Website	www.econ.cam.ac.uk/cwpe

Financialisation as a (it's-not-meant-to-make-sense) gigantic global joke

On how easy rents lead to lazy elites (and a 'latinoamericanised' West); on perpetual manias; on how theory and policy confuse 'means' with 'ends'; and on emerging countries as "financial markets of last resort"

José Gabriel Palma [1]

University of Cambridge [2]
and University of Santiago

> 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**

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, E51, F02, F21, F32, F40, F63, G15, G20, G30, L51, N20, O16

---

[1] As I am writing about insubstantial asset-price inflation, I must declare an interest: since graduating, I have always owned a comfortable flat or a house, and I have made more money via (tax-free) capital gains on them than from my long working life.

I would like to thank Jonathan DiJohn, Daniel Hahn, Richard Kozul-Wright, Cristóbal Palma, Jonathan Pincus and Ignês Sodré for their comments on an earlier draft. Two anonymous referees and participants at a seminar at Girton College, Cambridge, also made valuable comments.

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). Also, my lifelong friend and colleague Geoff Harcourt died when I was writing this paper. One of the pleasures of my life was to have had the opportunity to be the editor of his Festschrift. I dedicate this paper to him.

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

ABSTRACT

This paper analyses events in financial markets since the 2008 financial crisis in both the developed and the developing worlds, giving especial attention to the processes of ‘financialisation’; that is, to the combined effect of the growing size and dominance of the financial sector relative to the non-financial sector, and the diversification towards financial activities in non-financial corporations. The main conclusion is that we are paying the price (and a huge one) for two related phenomena; one belongs to the realm of ideology and knowledge, the other to ‘power play’.

On the first phenomenon, the failure of economic theory, especially (although not only) of the mainstream type, to really take on board five key developments in the world of finance that ‘did not fit in their models’ was remarkable: the 1970s stagflation; Volker’s subsequent radical-monetarist recession (which devastated Latin America); the ‘savings and loan’ debacle that followed Reagan and Thatcher’s 1980s neo-liberal agenda of financial liberalisation and deregulation —policies reinforced by further deregulation in the 1990s; the inability of both monetarists, and traditional Keynesian policies to revert Japan’s poor 1990s’ performance; and, of course, the ‘endogenous’ nature of the 2018 financial crisis. Basically, economic theory failed to reinvent itself when needed as it did after the 1930s crash. There was a growingly complicated world out there, where a lot of strange stuff was happening —such as the ever growing decoupling of the financial and real worlds in all financialised economies— but an astonishing lack of imagination in theory and policy-making ruled. In essence, a fundamentalist understanding of theory and policy led to a confusion of ‘means’ with ‘ends’. This was the trademark of the Washington Consensus, especially in issues of finance. So, when this type of policy package (unsurprisingly) had no answers to the above events, mainstream actors —instead of attempting to rethink their worldview, and react in the meantime with the type of policy-pragmatism suggested by their own neo-classical theory of the ‘second best’— opted instead for the ‘more of the same’, while regurgitating some 1960s stuff, which had been built (rightly or wrongly) for a completely different world. Meanwhile, they kept delivering a set of ever more unconvincing story-lines that embellish whatever did not fit in their models, trying constantly to generate a positive spin on events, dressing them up with explanations that were consistently simple, mechanical and invariably ‘optimistic’. If pumping over US$ 16 trillion of “QE” money and related measures had failed as a “recovery” policy after 2008, why not do the same thing all over again in 2020 (and pump in another US$ 9 trillion) —and this time it will work!

In turn, on the heterodox side of the analytical spectrum, some —but certainly not all— analysts fell into the same ‘neo-phobic’ trap, but their fear of the (analytical) new not only kept them stuck in theoretical narratives that also needed a revamp, but sometimes also led them to some story-telling —although in this case, one that instead of being invariably optimistic, was invariably ‘pessimistic’.

On the second phenomenon (‘power play’), the rather odd way in which policy makers have tried to ‘save the world economy’ from the impact of the pandemic by artificially creating a new billionaire every 26 hours —or by helping the richest ten individuals in the world make US$1.3 billion a day for 20 consecutive months— has also been problematic. But when rentiers agents “too-large-to-be-challenged” (of the ‘price and rules-makers’ sort, who have become accustomed to easy rents) are allowed to take policy-making over, it was likely that it would be captured in this direction —leaving the story-telling to politicians and central bankers on why the very rich should become the biggest welfare recipients of all time.

When the stakes for the real economies and financial markets of developed and emerging markets alike, and their wider society could have scarcely been higher, these analytical and political challenges were happening at the worst possible time, as our social imagination had seldom been so barren.

The intended contribution of this paper is to analyse these issues through the lens of a narrative of the actual events that have taken place in international financial markets since the 2008 crisis, especially in terms of the impact of financialisation in both advanced and emerging markets. The emphasis will be on the remarkably unimaginative and repetitive response to them, and how this has brought about an increasingly fragile world of artificially-created perpetual manias in all financialised economies —as well as the inevitable story-lines trying to embellish them. Nothing like this had ever happened before on earth! But as one group of Native Americans used to say, “Those who are better at storytelling will dominate the world”.

Introduction

This paper analyses events in financial markets since the 2008 financial crisis in both the developed and the developing worlds, giving especial attention to the processes of 'financialisation'; for this I understand the combined effect of the growing size and dominance of the financial sector relative to the non-financial sector, and the diversification towards financial activities in non-financial corporations. The main conclusion is that we are paying the price (and a huge one) for two related phenomena; one belongs to the realm of ideology and knowledge, the other to 'power play'.

On the first phenomenon, the failure of economic theory, especially (although not only) of the mainstream type, to really take on board five key developments in the world of finance that 'did not fit in their models' was remarkable: the 1970s stagflation; Volker's subsequent radical-monetarist recession (which devastated Latin America); the 'savings and loan' debacle that followed Reagan and Thatcher's 1980s neo-liberal agenda of financial liberalisation and deregulation —policies reinforced by further deregulation in the 1990s; the inability of both monetarists, and traditional Keynesian policies to revert Japan's poor 1990s' performance; and, of course, the 'endogenous' nature of the 2018 financial crisis.

Basically, economic theory has failed to reinvent itself when needed as it did after the 1930s crash. Long gone are the days when economists had Keynes' attitude towards this crisis: he simply acknowledged that they had to go back to the drawing board

> [W]e have involved ourselves in a colossal muddle, having blundered in the control of a delicate machine, the working of which we do not understand.[3]

We now again face a growingly complicated world out there, where a lot of strange stuff is happening —such as the ever growing decoupling of the financial and real worlds in financialised economies— but one finds little acknowledgment of our lack of understanding, and a surprising lack of imagination in theory and policy-making rules. Furthermore, a fundamentalist approach to theory and policy has led to a confusion of 'means' with 'ends' —a legacy of the Washington Consensus, especially in issues of finance.

With such a complicated world out there, no wonder so many economists from all walks of life are so startled that they seek refuge in traditional fundamentalists beliefs. It is as if they fear that by allowing new ideas or forms into one's system of belief they might destroy *belief itself*.[4]

For example, full financial liberalisation and deregulation have became 'ends' in themselves, rather than just 'means' that (at least according to mainstream theory) could help achieve an efficient allocation of resources in financial markets. And the key necessary conditions for market efficiency in this theoretical narrative —such as the necessity that all agents should be 'price' and 'rules' takers, and that governments should be able and willing to pass on to relative prices all 'externalities' via taxes and transferences— have became redundant.

So, when this type of policy package (unsurprisingly) had no answers to the above events, mainstream actors —instead of attempting to rethink their worldview, and react in the meantime with the type of policy-pragmatism suggested by their own neo-classical theory of the 'second best'— opted instead for 'more of the same', while regurgitating some 1960s theoretical stuff, which had been built (rightly or wrongly) for a completely different world. Meanwhile, they kept delivering a set of ever more unconvincing story-lines that embellish whatever did not fit in their models, trying constantly to generate a positive spin on events, dressing them up with explanations that were consistently simple, mechanical and invariably 'optimistic'.

---

3 Quoted in https://www.youtube.com/watch?v=eNUP_eL0kN8

4 On fundamentalism, see Britton (2002); see also Palma (2009).

In turn, on the heterodox side of the analytical spectrum, some —but certainly not all— analysts fell into the same 'neo-phobic' trap, but their fear of the (analytical) new not only kept them stuck in theoretical narratives that also needed a revamp, but sometimes also led (at least to some of them) to story-telling —although in this case, one that instead of being invariably optimistic, was invariably 'pessimistic'.

On the second phenomenon ('power play'), the rather odd way in which policy makers have tried to 'save the world economy' from the impact of the pandemic by artificially creating a new billionaire practically every day —or by helping the richest ten individuals in the world make US$1.3 billion a day for 20 consecutive months— has also been problematic. But when rentiers agents "too-large-to-be-challenged" (of the 'price and rules-makers' sort, who have become accustomed to easy rents) are allowed to take policy-making over, it was likely that it would be captured in this direction —leaving the story-telling to politicians and central bankers on why the very rich should become the biggest welfare recipients of all time.

Meanwhile, 160 million more people in the world were pushed into poverty during the pandemic. And there is now research showing that in the US two thirds of young people are now on track to be poorer than their parents.[5]

The intended contribution of this paper is to analyse these issues through the lens of a narrative of the actual events that have taken place in international financial markets since the 2008 crisis, especially in terms of the impact of financialisation. The emphasis will be on the remarkably unimaginative and repetitive response to them, and how this has brought about an increasingly fragile world of artificially-created perpetual manias. Nothing like this had ever happened before!

1. - The setting

As I was finishing writing the first draft of this paper in September 2020, half a year into a major pandemic and a real economy collapse, one speculator has just made US$30 billion (bn) in a single day, one asset manager US$16bn from a single bet, and a shareholder in a tiny automaker (that makes minimal earnings and pays no dividend) US$13bn —lifting his gains to US$88bn since the outbreak of the pandemic (so he is now promising to build a city next, on Mars!).[6] In turn, in the last few months the net worth of another individual rose by US$73bn, and another made US$ 45bn, while the combined fortune of US tech billionaires increased by US$270bn.[7] In the same short period of time, in China one billionaire made about US$30bn, and 257 of its citizens became billionaires. At the same time, one Asian asset manager was able to make such derivative bets that his "Nasdaq whale" threatened to transform a "melt-up" in tech stocks after their early dip at the start of the pandemic into an avalanche. And, according to one insider, at the time of writing "the whale [was] still hungry".[8]

Meanwhile a quintet of tech-giants, after losing US$1.3 trillion (tr) in March of 2020, gained US$7tn in August —more than the entire Japanese Topix with its 2,170 companies. And Apple, whose best days were meant to be behind 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.[9]

As two analysts of the *Financial Times* (FT) rightly remarked, "the last time the super-rich had it this good was in 2009, after the great financial crunch".[10] As mentioned above, nothing like that had ever happened before. This is precisely the focus of the first part

5 https://www.youtube.com/watch?v=3rF1W6vSqBc

6 In the first 20-months of the pandemic his fortune would grow ten-fold (to nearly US$ 300bn).

7 https://www.ft.com/content/ab30d301-351b-4387-b212-12fed904324b

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

9 Soon afterwards, another trillion was added, becoming the first US$ 3 trillion corporation.

10 https://www.ft.com/content/ab30d301-351b-4387-b212-12fed904324b

of this paper: the remarkable behaviour of policy makers and central bankers, and of international finance in general, after these two startling events (2008 and 2020); in turn, the second part analyses the impact of the associated process of increased financialisation on emerging markets.

The key issue throughout is how after the 2008 global financial crisis policy makers truncated the traditional Kindlebergian financial-crisis cycle of “manias, panics and crashes”, so that now any financial panic is now likely to be followed by a renewed cycle of mania both in the developed and in the developing worlds alike. In their attempt to do the ‘whatever it takes’ to avoid a disorderly crash, they kept refilling the punchbowl with such an amount of ‘high-spirited’ easy money and easy credit that they not only managed to avoid a crash, but also keep the party going in a perpetual state of mania.

Good old fashioned central bankers acted differently: they took the punchbowl away when the party was threatening to get out of control, as they thought that their key role was to *avoid a mania* from happening in the first place.[11] And if one began to emerge, what they did was not only to try to bring back some calm, but also some sanity and market discipline —which meant allowing price corrections if some irrational exuberance had distorted prices of financial assets, while governments would severely punish agents that had misbehaved.[12]

1.1. - Kindleberger’s financial crisis cycle of “manias, panics and crashes”

When Charles Kindleberger gave me a copy of his famous book, he wrote on the first page —and in big letters— “Avoid manias”! In this book, he highlights some important aspects of financial cycles including the tendency of people to forget past shocks and tears when markets are rising. For him, the most surprising feature of a financial bubble is the inability of those trapped inside it to acknowledge the seriousness of the situation. Denial at its worse! In theory, market players know that there is a bubble and that a panic leading to a crash is an almost inevitable outcome of such bubbles bursting (well, things have changed since 2008; see below). However, in ‘normal’ times, when a new bubble begins to take shape participants invariably believe that either this time will be different,[13] or that they will be able to exit in time. So, they continue to speculate as market manias continue to deliver dizzying rise in prices across all asset classes —until the party inevitably stops.

Even Newton got enticed with the South Sea bubble! In fact, he got in, made a fortune and decided that it was time to get out; however, soon afterwards (as many of his friends were all getting rich in the bubble) he could not resist the temptation to get in again, and this time he lost everything.[14] If he could be fooled by the irrational exuberance of a bubble, what can be expected from us, mere mortals! No wonder Kindleberger uses the concept of mania in a psychoanalytic sense: mania as a disconnect, or detachment, from reality!

As Freud reminded us, “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”.[15]

The end of the party is often triggered by what Paul McCulley (referring to the Asian Debt Crisis of 1997) labelled “a Minsky moment”.[16] This defines the point in time where the

---

[11] https://fraser.stlouisfed.org/title/statements-speeches-william-mcchesney-martin-jr-448/address-new-york-group-investment-bankers-association-america-7800

[12] Not any more… The fines imposed by the SEC had dropped by more than half during the four years preceding 2008; and Bernard Madoff was allowed to keep operating after the SEC was alerted to his misdeeds by Harry Markopolos. In fact, after the 2008 crisis the US jailed just one banker, while after the savings and loan crisis more than a thousand got convicted (https://ig.ft.com/jailed-bankers/). In Iceland, instead, 25 went to prison.

[13] See Reinhart and Rogoff (2011).

[14] See Palma (2019a). Unfortunately for him, the government of the time did not do “QE”.

[15] https://www.sas.upenn.edu/~cavitch/pdf-library/Freud_War_and_Death.pdf

sudden decline in market sentiment inevitably leads to a downwards cycle that can easily end up in a market crash. A 'Minsky Moment' crisis would follow a prolonged period of bullish speculation, which is also associated with high amounts of debt taken on by all type of agents.

Sometimes, but not always, a 'Minsky Moment' happens when some market 'insiders' begin to realise that the growing gap between prices and values is becoming unsustainable; then, they usually decide to close their positions and exit the market. This usually marks the peak of the market cycle. Then, creditors start getting worried about the ability of debtors —who had engaged in excessively aggressive speculation in the rising market and had taken more risks during bull markets than what it would have been privately (let alone socially) efficient— to pay back the loans; and such concerns usually confirm that markets are at a peak. An important part of Kindleberger's brilliant 2005 book is about how bull markets will always tend to end in epic collapses.

In turn, Minsky's work also centres on the concept of the inherent instability of markets.[17] Minsky's unique contribution is to highlight how a period of steady economic growth is bound to spur a rise in speculative behaviour, which would eventually result in market instability and risk of a collapse. That is, periods of prolonged prosperity can entice financial agents of all sorts to take on riskier assets as lending 'rationing' criteria are relaxed, increasing the leverage of the banking system.[18] And riskier assets result in greater market exposure, making the system more vulnerable to defaults. Under these circumstances, issues such as adverse selection are also particularly relevant.[19]

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

That is, a capitalist economy —North and South of the Equator— tends to promote *endogenously* a financial dynamic that is prone to debt crises. This contradicts the conventional view that financial markets are fundamentally stable, or at least able to self-adjust. Therefore, for the mainstream an exogenous shock —or a government destabilising interference— is necessary for crises to occur. However, Minsky challenged this perception with his financial instability hypothesis. Essentially, Minsky argues that *stability is destabilising*, and that the internal dynamics of unregulated markets could be solely responsible for their failures. And he then brilliantly describes the three stages of his financial cycle: the hedge, the speculative, and the Ponzi.

The emergence of liquidity issues and bankruptcies is generally the first indication of the beginning of panic mode, as debtors relying on additional loans to cover their cash flows to stay afloat face bankruptcies —as these cash flows dry up and repayments begin looming in front of them. In this turn of the tide, there is a sudden and collective move towards the exit, leading to mass panic and a further freefall in asset prices of all kinds. In other words, a continued fuelling of a bubble, without consideration of its after-effects, is usually the underlying cause for market crashes.

In turn, a typical theme that follows a market mania is an increase in fraudulent behaviour —with Charles Ponzi and Bernie Madoff being paradigmatic examples.

Finally, it is important to emphasize from the start that the work of Kindleberger and Minsky, among others, help understand a key point of this paper: if policy makers were to

---

[16] See https://www.economist.com/schools-brief/2016/07/30/minskys-moment

[17] See especially Minsky (1992).

[18] "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); and Palma (2012, 2016 and 2022).

behave as 'good old fashioned central bankers' (rather than as the current 'rentier-facilitators' neo-liberal ones; see below), it does not mean that financial markets would behave as those found in mainstream macroeconomic texts. In other words, what this paper is really about is an analysis of distortions and market failures that take place over and above other distortions and market failures which would 'normally' occur in deregulated financial markets. In other words, the counterfactual to what has happened since 2008 is not one of selfish agents behaving rationally in competitive markets capable of allocating resources in the most effective and efficient way. It would at least be, however, one in which wishful thinking might not have become delusional.

1.2. - We are not in Kansas anymore!

As Carlos Díaz Alejandro brilliantly remarked as early as 1984, "we are not in Kansas anymore"… In this post-modern neo-liberal world policy makers and central bankers now behave in the exact opposite way of good-old-fashioned ones: it seems that their main aim in life is not to avoid manias like the plague anymore, but to turn a blind eye to them, and then deal with the inevitable destabilising panic that they bring by engineering another mania; and that the way to do that is by rocketing the net worth of a few individuals.

As suggested above, artificially lifting billionaires' wealth is surely a rather odd way to 'save the world' from the impact of (unnecessary) panics —unnecessary because the mania that brought them should have been dealt with immediately—; but that is exactly what has been done —to the point that the combined fortune of the richest 500 individuals in the world is now greater that the whole of Latin America's GDP!

And before the pandemic, inequality had already reached levels that were simply obscene: if at the time the US had the same level of GDP but the share of income of the top 1% had been what it was when Reagan was elected, they would have earned 2 trillion dollars less than what they did (an amount larger than Brazil's GDP). And they would have just had about half their wealth —and the top 0.1% only a third, and the top 0.01% just a fifth.[21] It was in this already absurd, and artificially created unequal scenario that monetary authorities pumped again, as in 2008, a tsunami of liquidity so that 'the more of the same' could continue; what they really achieved, as one insider remarked, was to engineer "a return to the world of dot.com[edy]".[22]

In fact, global financial assets have reached US$ 422tr, an amount 5 times larger than global GDP.[23] And there were so many over-liquid and under-imaginative speculators unable to find where to park their money that at the time of writing at the end of 2020 the *negative* yielding debt pile was fast approaching US$ 20tr.

And the "dance of the billions" (now of trillions) did continue during 2021; so during the first 20 months of the pandemic the wealth of just the 10 richest individuals doubled to US$1.5tr,[24] and that of global billionaires has increased by an amount similar to the whole of global public health spending.[25] Surely it is a rather odd way to "save" the world economy from the impact of the pandemic by artificially creating a new billionaire just about every

---

[21] WDI (2021); and Saez y Zucman (2016).

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

[23] https://www.mckinsey.com/industries/financial-services/our-insights/crossing-the-horizon-north-american-asset-management-in-the-2020s#download/%2F~%2Fmedia%2Fmckinsey%2Findustries%2Ffinancial%20services%2Four%20insights%2Fcrossing%20the%20horizon%20north%20american%20asset%20management%20in%20the%202020s%2Fcrossing-the-horizon-north-american-asset-management-in-the-2020s.pdf%3FshouldIndex%3Dfalse

[24] https://www.oxfam.org/en/press-releases/ten-richest-men-double-their-fortunes-pandemic-while-incomes-99-percent-humanity.

[25] Forbes (2021), and WDI (2021).

day. Instead, as a *Financial Times* (FT) columnist rightly says, the last thing that was needed to reactivate fragile economies were more "silly billys" (silly billionaires).[26]

And while monetary and fiscal policies in advanced and many emerging countries were multiplying "silly billys" like rabbits, 160 million more people were pushed into poverty by the pandemic, with about 100 million into extreme poverty, with troubling reversals also in nutrition, health and education.[27] And the immunisation rates in the world's poorest countries at the end of 2021 is still below 10%, but pharmaceuticals keep refusing to allow their vaccines to become generic despite all the billion of dollars they got as subsidies from governments for their development.[28]

Meanwhile, the abundance of almost free finance helped create such ownership-concentration in financial asset that collectively the 10 largest institutional investors ended up owning more than a quarter of the US stock market. In fact, mergers and acquisition (M&A) worldwide from the start of "quantitative easing" (or "QE") in 2008 and 2020 reached US$46tn, the biggest anti-competition drive ever[29] **—**like Facebook buying Instragram just to stifle competition, or now just three new conglomerates managing "[to] control more than 60% of the seed and agrochemical market, […] almost all GMOs (genetically modified organisms), and the majority of patents on plants in the world."[30]

What the new breed of policy makers and central bankers have actually achieved is to engineer a toxic cocktail that not only kept distorting financial market, but also deserting the real economy: according to the chief economist of the Bank of England, this new financialised environment brought about phenomena such as "corporate self-cannibalism", as an unholy alliance between a new breed of 'active' (i.e., bullying) shareholders and self-seeking executives led to companies being dismantled, or condemned to debt, in order to increase immediate returns.[31]

And emerging Asia and Latin America were not immune to this, with Asia's 20 wealthiest families reaching the half a trillion dollars mark towards the end of 2020, and Latin America adding billionaires to the Forbes' list faster than other regions in the world.[32]

No wonder that in the middle of the worse health scare for a century, Ferrari, Lamborghini, Porsche and Rolls-Royce, among many other luxury brands of all kinds, were registering historic sales records. And as in this world of finance reality became stranger than fiction, the head of HSBC's Asian private banking was happy to sign a two-year 10 million dollar deal with a dance instructor so as to get unlimited Latin dance classes of rumba, samba and cha-cha. And a chess set sold for 10 million dollars, a bottle of cognac for 2, a pen for one and a half, a fishing lure for a million, a shirt for 250 thousand dollars, and a mere truffle for 100 thousand. And why not treat your dog to a 95 thousand doghouse?

And if on low budget, now there are hotdogs for 2 thousand dollars, a Chanel fire extinguisher for 15 hundred, and a kilo of coffee for a thousand, or just a designer paperclip for 185 dollars.[33]

And since financial markets already live in a world of virtual realities, why not take the next step and join the boom in cryptocurrencies and become another crypto billionaire? Or go one further and join the metaverse, a collection of shared online worlds, which is

---

26 https://www.ft.com/content/8ba26f1e-16f8-11e8-9c33-02f893d608c2

27 In low and medium income countries the share of 10-year-olds who cannot read a basic text has increased from 56% before the pandemic to 70% now (https://www.worldbank.org/en/news/feature/2021/12/20/year-2021-in-review-the-inequality-pandemic).

28 https://www.worldbank.org/en/publication/global-economic-prospects.

29 Data in US$ of 2020 (https://imaa-institute.org/mergers-and-acquisitions-statistics/).

30 Heinrich Böll Foundation (2017).

31 https://www.youtube.com/watch?v=ZmUlTuyRPd8

32 https://www.forbes.com/billionaires/

33 https://www.entrepreneur.com/slideshow/304279; https://canyouactually.com/here-are-17-of-the-most-ridiculously-expensive-versions-of-everyday-items/

already the trendiest tech idea, one that has already attracted millions of people and billions of dollars.[34]

If one cannot afford to buy a house in the real world, in the mirror reality of cyber space prices start as low as 100 thousand dollars, or less than half the average cost of a first-time buyer's house in the UK. The slight catch is that one can't actually live in it because it only exists in the Sandbox, but you do get a digital receipt in the form of a non-fungible token that is recorded on a shared digital ledger known as a blockchain (similar to how cryptocurrency transactions are logged).[35] One can then open a virtual office, and in the spare time visit Sotheby's virtual art gallery in Decentraland —there are bargains, like a collection of pictures of punks that has already passed one billion dollars in sales.[36] And if sport is your thing, why not go to the parallel Australian Open where Novak Djokovic does not need a vaccine passport? Pandemic, what pandemic?

In fact, everything is so fragile in this metaverse world that a quarter of a trillion dollars of the market capitalisation of one of its main earthly backers has just vaporised in a few hours —again, nothing like that had ever happened before on earth. But now there is nothing new with records falling all the time; in one day in early February 2018, for example, the Dow Jones plummeted as though it had been hit by lightning, and in just a few minutes 2 trillion dollars worth of stocks vanished in a puff of smoke. Paraphrasing an FT columnist, financial markets now look a lot like a (it's-not-meant-to-make-sense) gigantic global joke.

Even the FED has joined in by doubling the number of hundred-dollar bills in circulation (to US$1.3tn), making it the most widely available dollar-note —even if people hardly ever carry them around to shop with. 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".[37] The same is happening in the UK, where, according to the National Audit Office, its spending watchdog, 70% of banknotes are "missing" —that is, the activities of criminal gangs and tax evaders have also been quantitative eased by the large availability of notes, especially large ones. And even the Vatican's central administration office joined the casino gaming floor by using donations by its faithful for the poor and needy to speculate in derivatives, like placing a big bet on holy issues such as to whether a US car rental would default on its debts.[38]

2. - Have they all lost their collective minds?

It is difficult to think of another period of time since the glory days of JP Morgan, a century ago, when finance had captured policy to such an extent.[39] Thus, during the 2008 financial crisis George W. Bush appointed Henry Paulson —ex-CEO of Goldman Sachs— as Treasury secretary to sort out the mess for which he had a lot to answer for; then, as Stiglitz emphasises, Barack Obama, again, "inexplicably turned to the same individuals bearing culpability for the under-regulation of the economy in its pre-crisis days to fix what they had

---

[34] https://consensys.net/blog/metamask/metamask-surpasses-5-million-monthly-active-users/

[35] See https://ethereum.org/en/nft/#ethereum-and-nfts; https://www.ft.com/content/f5d5bed3-8cf2-40c6-8f85-6b824a223ffe; https://www.ft.com/content/1ae22d81-4c23-4475-8661-354f1b8dbc7c; https://www.ft.com/content/7469109a-183e-4742-a059-21b48df18104; https://www.youtube.com/watch?v=--WHNUP3Md4;

[36] https://news.bitcoin.com/cryptopunks-nft-collection-joins-axie-infinity-and-opensea-by-hitting-1-billion-in-sales/; https://www.larvalabs.com/cryptopunks/details/6275

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

[38] https://www.zerohedge.com/markets/vatican-used-donation-money-fund-extremely-risky-bet-hertz-credit-derivatives?

[39] JP Morgan at least understood the responsibilities that came with having such a leading market role (Sobel, 1965).

helped break".[40] And then Trump did the same appointing an ex investment banker and hedge manager to the job.

What he then did on March 18, 2020, with coronavirus spreading, stocks tumbling and bond trading seizing up, is now typical: the person he summoned to Washington to help sort out the mess was no other than Larry Fink, the CEO of BlackRock, the largest hedge fund in the world. As the *Wall Street Journal* (WSJ) recounts, Mnuchin, the secretary of the treasury, then organized an Oval office meeting with Fink and the President where they debated what needed to be done and how. The outcome of that meeting is now history:

> [T]he government unveiled a roughly $2 trillion package, …[and] the Fed hired a BlackRock unit to help it pump money into corporate bonds —a first for the central bank— … Part of BlackRock's assignment was helping the Fed buy bond exchange-traded funds, including BlackRock's own. … The Fed didn't bid out the job. It simply hired BlackRock.[41]

As Minsky (1986) reminds us, "economics … is certainly too important to be left to … [financial] courtiers".

Does anyone remember, or care, that even according to mainstream economics one necessary condition for markets to work efficiently is that all agents should not only be "price takers", but also "rules takers"?

In a way, captured monetary authorities have certainly succeeded: if after the dot.com debacle in 2000, it took the Nasdaq 15 years to return to its previous peak, in 2020, after its one-third collapse in February 2020 this took just two and a half months (only to continue its ascent towards an overall jump of 75% before the end of the year). However, financial pyrotechnics as a policy to reactivate mature economies had already been tried —and failed— post-2008; but this did not stop policy makers from trying them all over again after the start of the pandemic in 2020. During the decade after the start of "QE" in 2008 —and despite major central banks pumping over US$ 16tr into financial markets[42]— the average annual rate of growth of employment and productivity in the high-income OECD reached a meagre 0.7% and 0.6%, respectively —or one-third and one-half below the levels reached during the previous decade, respectively.[43] However, taking the bankruptcy of Lehman Brothers as the turning point (September 15, 2008), the S&P500 grew 6.6 times faster during the decade that followed this event than during the one that preceded it.

This remarkable decoupling of the financial and real worlds —and failure of "QE" and related measures as "recovery" policies after 2008— did not stop policy makers from trying exactly the same all over again in 2020 by pumping another US$ 9tr in response to COVID-19.[44] As Einstein remarked, "Insanity is doing the same thing over and over again and expecting different results".

Indeed, policy makers in the UK certainly knew that (according to Moody) *less than 1%* of the financial resources generated by "QE" after 2008 had been used to create new productive capacities.[45] Even the Deputy Director of Fiscal Affairs of the IMF reminded policy makers of some Keynesian fundamentals: "You get a bigger bang for your buck from public investment [than from policies such as QE as] … investment by private firms has been extremely low".[46]

In other words, what policy makers attempted in 2020 was the same hat-trick they had aimed at in 2008: calming down financial markets after the outbreak of the pandemic by

---

40 https://www.project-syndicate.org/commentary/secular-stagnation-excuse-for-flawed-policies-by-joseph-e-stiglitz-2018-08

41 https://www.wsj.com/articles/larry-fink-wants-to-save-the-world-and-make-money-doing-it-11641484864

42 https://www.atlanticcouncil.org/global-qe-tracker/

43 Conference Board (2021).

44 https://www.atlanticcouncil.org/global-qe-tracker/

45 http://www.bbc.co.uk/programmes/b09pl66b#play

46 https://www.imf.org/en/Publications/FM/Issues/2020/09/30/october-2020-fiscal-monitor

diving in with extraordinary liquidity support; reactivating economies by making sure that a few individuals' net worth went into outer space; and convincing everybody that the more shameless QE becomes as an exchange of cash for trash, the faster the recovery. A lack of new ideas had propelled mere wishful thinking into a delusional state —so, from now on I will refer to this brand of (captured) policy makers as the "new alchemists".

There is nothing new in capitalism delivering privileges to a tiny elite; however, those acquired now by Wall Street —and their capacity to capture policy makers— have more than a passing resemblance to the power that the British East India Company had in its heydays.

The "new alchemists", now the "financial dealers of last resort", may well have engineered a return to the world of dot.com[edy], yet, at least the dot.com bubble led to a massive investment boom in the new technology (Pérez, 2002). Now are just left with the comedy.

3.- Some theoretical issues: "efficient capital market" and "secular-stagnation" hypotheses as story-telling

There are two key theoretical points leading the analysis of this paper: in finance the real thing to fear is the lack of fear itself; and an out of control, unregulated financial market —in which a few agents acquire the privilege of being "price makers" and "rules makers"— becomes a major fetter on the real economy both in advanced and emerging economies alike.

It follows that rescue policies from financial crises of the type implemented since the 2008 crisis by the "new alchemists", and intensified during the pandemic, were likely to be counterproductive. Artificially constructing a floor under already overblown asset prices engineered a moral hazard of such magnitude that it has driven speculators, particularly large ones, even further up on the risk curve —encouraging them to take even more risks than it was privately (let alone socially) efficient. This was bound to create a lot of fragilities in financial markets and make them prone to sudden panic attacks, for which even more of the same medicine would be required. In the meantime, the real economy in the west languishes, and emerging Asia cannot believe its luck as this opens up huge productive opportunities for them —and many Asian corporations and governments certainly know how to take advantage of this.[47]

Now the "new alchemists" believe that their key role in life is to keep doing the "whatever it takes" in terms of liquidity, and then play a "therapeutic" role: that of "holding", "containing" and "boundarying" speculators' anxieties. In such a scenario there will be a semblance of a safe and boundaried environment in which 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.[48]

3.a - The "efficient capital market" hypothesis

Part of the problem, as always, is ideological. If one comes from an "efficient capital market" perspective —and its worshipping of markets—, then what would be the problem in injecting large amounts of liquidity into troubled financial markets? After all, this extra liquidity won't create an endogenous gap between market prices and fundamentals —let alone a bubble (ignoring such basic issues as that collateral-based credit systems are especially prone to bubbles).

Within this perspective asset prices are always so efficient that they actually deserve a pedestal, and stock options should be the most rational reward for good performance —even

[47] See Chang and Rowthorn (1995); Khan (2015); Andreoni and Chang (2019); and Palma (2019b).

[48] Even Rogoff (2020) has now become alarmed: "At some point, markets will be disabused of the notion that taxpayers will cover everything indefinitely."

in a world of massive shares buybacks: since 1997 share repurchases have surpassed cash dividends and become the dominant form of corporate payout in the U.S. (even though up to a few years before that they were actually illegal as they are a mechanism that distorts stock prices).[49]

Furthermore, as in the efficient capital market utopia stock prices are supposed to be a 'random walk' (i.e., they are supposed to be unpredictable and cannot be modelled or forecasted), particularly under risk neutrality there is no scope for profitable speculation. Therefore, rational stock market supposedly will never be beaten on a consistent basis, even by large agents (no matter how much liquidity they may command). Warren Buffett must think that this is a Chicago joke.

The key point here for the efficient capital markets hypothesis is that if financial markets get misaligned, they always 'self-correct'. 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 market theology a 'rational surfer' is not the one that has fun riding waves, but the one that gets drowned trying to create undertows.[50]

The fact that some people, like Warren Buffet, have been able to beat stock markets in a consistent way for most of their life, or that Larry Fink, among others, are now doing exactly that —the total returns of his BlackRock fund since its IPO in 1999 has been 22 times higher that that of the S&P500[51]— has made little difference to those fundamentalist beliefs. After all, when in the efficient capital markets hypothesis the purity of belief is competing with the complexities of the real world, there really is no contest.

In a more generic sense, Daniel Kahneman (2011) wonders if any-one has ever really changed his or her mind because of some empirical evidence. He argues that people just replace difficult questions with others which are easy to answer (algebra helps in this if it is economics). After all "WYSIATI" rules (what you see is all there is). Although efficient capital marketers are not the only ones to have undue confidence in what their mind believes it knows, they seem to have more undue confidence in that than most… And, as Kahneman (2011) writes, "Odd as it may seem, I am my remembering self, and the experiencing self, who does my living, is like a stranger to me."

Therefore, facts as those that the Editorial Board of the *FT* emphasises seem to have had little impact in what the "new alchemists" still believe:

> "[what] cheap money … [has produced] is just a scramble to invest in nearly everything on offer". The obvious example of this is the boom in special purpose acquisition vehicles, or Spacs, which list their shares on the premise that the promoters have a great deal lined up in the future that will make their backers a decent return. Seasoned financiers, entrepreneurs and former politicians are all putting their names on Spacs, with tens of billions of dollars raised on little more than the hope that these plans for deals will come to fruition.[52]

This brings to mind South Sea Bubble times, when speculators were successfully lured into putting money into "a company for carrying out an undertaking of great advantage, but nobody to know what".[53]

---

[49] Buybacks became a more tax-efficient way to reward shareholders because tax is only applicable on the actual sale of shares, whereas dividends attract immediate taxes. Furthermore, dividends return cash to all shareholders while a share buyback returns cash to self-selected shareholders only.

[50] See Fama (1970). When I participated in 2008 in a panel to nominate candidates for the biannual 'Deutsche Bank Prize in Financial Economics' (worth 50,000 euros), organised by The Center for Financial Studies of the Goethe University in Frankfurt, I learned to my surprise that the first prize, awarded in 2005, had been given to Eugene Fama from Chicago University (http://www.ifk-cfs.de/index.php?id=901).

[51] https://www.blackrock.com/corporate/investor-relations/larry-fink-chairmans-letter

[52] https://www.ft.com/content/dccbf77d-37ba-4405-99f2-91cce402c87c

[53] MacKay (1841).

All this, but specially the combination of permanent excess liquidity with the 'whatever it takes'-type of assurance for speculators in distress, has distorted financial markets to such an extent that the *FT* Senior Investment Commentator said in the midst of the mayhem of the pandemic, "Notions that financial markets are perfectly efficient and move seamlessly to incorporate every new piece of information … now seem embarrassing".[54]

3.b - On irrational exuberances and secular-stagnationist's ideologies

In an efficient capital markets environment the immediate reaction of policy makers to the onset of the 2008 crisis was to fall back into Friedman's famous proposition: financial crises only occur because of monetary authority's mistakes, and radical monetarism can always offer a way out. The remarks by Governor Ben Bernanke at the conference to honour Milton Friedman ninetieth birthday are telling.

> [Milton Friedman and Anna J. Schwartz.] make the case that the economic collapse of 1929-33 was the product of the nation's monetary mechanism gone wrong. … [A]s an official representative of the Federal Reserve … I would like to say to Milton and Anna: Regarding the Great Depression. You're right, we did it. We're very sorry. But thanks to you, we won't do it again.[55]

So, it came as no surprise that the first port of call at the onset of the 2008 crisis was radical monetarism —and interest rates were slashed. As standard monetary theory predicted a relatively quick recovery, given the right monetary policy, the economy was supposed to adjust quickly and efficiently to the "new reality". However, standard models are usually ill-equipped to address some key complexities that tend to slow down the recovery. For example, they ignore issues such as the inevitable fight over who bears losses —and resulting ambiguity in long-term ownership; they also do not take into account that (especially with information imperfections) market adjustments to a perturbation from equilibrium could be (locally) destabilising. In general, markets tend to be neither efficient nor self-correcting because whenever information is imperfect or risk markets incomplete (that is, always) markets are not constrained Pareto efficient.[56]

When radical monetarism proved ineffective as a mechanism to revert the fortunes of economies in a financial panic (mainly to Keynesian liquidity traps), received wisdom then moved towards (a particular interpretation of) "secular-stagnationists"-style thinking. This became a convenient rationalisation for central bankers, treasury officials and politicians' belief that only an artificially created perpetual financial mania could deliver some semblance of a recovery.

With the excuse that the (unobservable) 'natural' interest rate had supposedly become negative, the new secular-stagnationists argued that the main obstacle for the post-2008 recovery was chronically weak demand (relative to potential output). This proved to be a handy justification for previous financial deregulation and for current systematic injections of liquidity and further relaxation of monetary conditions —no matter how much all this could violate mainstream economic theory. Summers, an early secular-stagnationists, famously stated that:

> 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.[57]

Therefore, and crucially,

---

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

55 https://www.federalreserve.gov/boarddocs/speeches/2002/20021108/

56 Greenwald and Stiglitz (1986).

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

> Most of what [might be] done under the aegis of preventing a future [financial] crisis would be [now] *counterproductive*.[58]

What Summers forgot to explain is how his new support for "abnormal" financial returns squares with his previous belief that "[A]sset prices will always reflect fundamental values […]. The logic of efficient markets is compelling".[59] Or how could 'abnormal' returns become an incentive to investment in the real economy if all they do is to increase its opportunity cost?

In short, from the new perspective for a recovery to take hold, the way forward was to engineer a perpetual financial mania. The key fault line in the secular-stagnationists' thinking was that even if they were right —i.e, that the (unobservable) 'natural' interest rate had become negative— it did not necessarily follow the other side of their story. If the key problem is a chronically weak demand relative to potential output, are the artificially generated *abnormal* stock market returns the best way to deal with that problem (as Summers suggests) rather than, for example, traditional Keynesian reflationary policies?

As the top 10% owns six of every seven stocks held by individuals, and the richest 1% owns half, more stock-market bubbles are unlikely to do much to boost actual expenditure (even the unproductive kind), as they will just shift even more resources to those 'cash-hoarding' agents who are already responsible for the decoupling of the financial and real economies.

As Krueger remarks, the top 1% of households normally 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 an extra trillion is earned by the bottom 99% instead of the top 1%, annual consumption would increase by about US$440 billions.[60] So, if the problem is chronically weak demand, surely there are more effective mechanisms to deal with that than artificially generating abnormal stock market returns.

However, as the problem of the "too big to fail" agent takes centre stage in a financial panic, policy makers now believe that the most effective way to avoid a crash are credible assurances of the "whatever it takes"-type to allow life to continue in a perpetual financial mania mode. And what about the recovery of the real economy? Well, that would be a great optional extra.

Tobin (1978) was surely right when he said that what growth requires is some "sand [rather than new lubricants] on the wheels of finance".[61] But Krugman, following Summers, disagrees and argues for reckless lending and lax financial regulation:

> [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.[62]

However, as we already know, credit booms weaken (rather than strengthen) output in the medium run.[63] Furthermore, global debt —and its components— had already swelled by nearly US$ 80tr between the 2008 crisis and the start of the pandemic, and poor economic performance coupled with financial fragility was evident everywhere.[64]

And as no one really expected any significant recovery as a result of perpetual manias, a boost in market shares was the way forward in the search for rents —even if this

---

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

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

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

[61] On the Tobin tax, see https://www.ft.com/content/6210e49c-9307-11de-b146-00144feabdc0

[62] https://krugman.blogs.nytimes.com/2013/11/16/secular-stagnation-coalmines-bubbles-and-larry-summers/. (Emphasis added).

[63] See Ostry et al. 2014; Borio et al. (2018); Lombardi et al. (2017); and Mian et al. (2017).

[64] For global debt, see https://www.iif.com/Research/Data

needed ever more "irresponsible" borrowing to finance ever more overblown prices for existing assets.

Private equity groups [PE] even found a new magical realist niche in the M&A market: on top of their usual gains in terms on 'longs and shorts' on either side of mergers, and their role in financing a significant amount of M&A —as Bloomberg reveals, "buyout barons Blackstone Group Inc., Apollo Global Management Inc., KKR & Co. and others account for a record 30% of global transactions this year [2021]"[65]—, and how they are helped in this by their close relations with banks and the huge leverage levels used, corporations under PE control began to buy companies from themselves! This type of deals, known as "continuation fund" sales, involves a buyout group selling a company it already owns to a new fund it has more recently raised. That allows it to return cash to earlier investors within the agreed timeframe, while keeping hold of a company that either has potential to grow or is proving difficult to sell —generating handsome payouts to executives.[66] At the moment of writing, these 'secondaries' "[A]re the asset class that everyone wants".[67]

And, as Bloomberg highlights, the merry-go-round circle goes on as it feeds on itself: "The more PE firms take over companies, the more they grow, the more cash they can extract from their investments, the more [buyout] opportunities they can take."[68] Also, the more they grow, the more they can rise in the form of new capital: between 2017 and 2020 they raised nearly one trillion a year! In fact, according to the SEC, hedge funds, PE groups and venture capital funds have amassed more than US$18tn in gross assets.[69]

And with bigger funds come bigger deals, with PE steadily creeping into transactions that were previously the preserve of seriously big businesses or even sovereign wealth funds. However, so far regulators and politicians' words are speaking louder than action in terms of making it harder for this industry to add leverage on deals, as well as for ending absurd tax breaks for fund managers.[70] And so far lack of real action comes despite the fact that the SEC has already acknowledged that a lot of PE activities "are contrary to the public interest"[71]

As the *FT*'s US Managing Editor states, "Nobody should underestimate the degree to which those QE experiments have distorted the financial system".[72]

One obvious problem with this secular-stagnationist "irresponsible" lending is that if the financial fragilities it creates went wrong, it could be ugly: already by the end of 2018, "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".[73] Nevertheless, for "secular stagnationists", what was needed was just more of the same.

---

65 https://www.bloomberg.com/news/articles/2021-09-17/private-equity-is-smashing-records-with-multi-billion-m-a-deals

66 When selling a company to their own newer fund, private equity dealmakers stand to receive payouts of carried interest —a 20 per cent share of profits. They can then receive a second chunk of carried interest cash later, when the newer fund eventually sells the company. By the end of 2021, these deals have nearly doubled since 2019 as increasing competition for new targets threatens to curb returns (https://www.ft.com/content/d1e380c9-6f77-43d3-88a4-93acfd47dfbd). There is, of course, an inherent conflicts of interest in the model as it can be difficult to make sure a fair process takes place to agree a price —but so far regulators don't seem to mind.

67 https://www.bloomberg.com/news/articles/2021-09-17/private-equity-is-smashing-records-with-multi-billion-m-a-deals

68 Ibid.

69 https://www.ft.com/content/ddb097f8-41bd-41c9-916e-713ea4035d8d

70 https://www.bloomberg.com/news/articles/2021-08-05/senators-go-beyond-biden-plan-to-end-private-equity-tax-break; see also https://www.ft.com/content/ddb097f8-41bd-41c9-916e-713ea4035d8d; and https://www.ft.com/content/4b38e54e-0c7e-42d6-a38c-38d6b91e2226

71 Although it seems that they are finally prepared to start taking at least some action; see Ibid.

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

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

According to Stiglitz, the real reason why the new bread of secular stagnationists "found the idea of secular stagnation attractive, [was] because it explained their failures… ".[74] I would just add that it also became a rather convenient excuse for implementing policies advocated by the most powerful interest groups in modern times. At least Obama should have known better.

Does anyone still remember that the neo-liberal reforms were sold by the Washington Consensus Institutions as necessary for "getting the prices right"? Paraphrasing Oscar Wilde, what they actually delivered was a new Titanic-style speculator that might well know the price of everything, but surely knows the value of nothing.

Secular-stagnationists should know by now that one thing is to pump extravagant amounts of liquidity into financial markets, quite another for that to help reactivate growth in the real economy governments should also exercise different forms of agency aiming at 'disciplining' the élite into actually spending this extra liquidity —and especially into doing so *productively*.

The US provides a great example of how easy access to ever-growing financial rents can coexist —and is bound to coexist— with low levels of investment and productivity growth. On the income side, and as already suggested, increased inequality has helped the top 1% to earn two trillions more that what it would do otherwise; and on the wealth side, if the US had the same level of wealth, but wealth inequality was the same that existed when Reagan was elected, the richest 1% would possess only half of their actual current wealth.[75] But despite this extra two billions in annual income for the top 1%, and this extra doubling of their wealth, overall investment is now one trillion lower as a share of GDP that what it would be if this share had remained at the level it was on when Reagan was elected.

Ricardo would not be surprised with this outcome: for him, easy rents would lead to lazy elites, low levels of investment, weak productivity growth and stagnant wages.[76]

In fact, wealth inequality has reached such heights that while the S&P500 was soaring to 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.[77] In turn, the retirement assets of just 100 CEOs adds up to as much as the entire retirement savings of more than 116 million people at the bottom of the pay scale.[78] And in terms of income the same happened: while CEO compensation grew by 940% from Reagan to 2018, that of the median worker did so by only 12%.[79]

As Figure 1 confirms, rocketing inequality and financial pyrotechnics were actually counterproductive with investment levels. As the top right-hand panel indicates, 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 a the low 40s.

---

74 Stiglitz (2018). For Summers' response, see Summers (2018).

75 Data from Saez y Zucman (2016). Inequality also impacts on other spheres of society, such as social mobility (see https://www.ineteconomics.org/uploads/papers/WP_174-Toperowski-and-Szymborska.pdf; and Palma, 2019a).

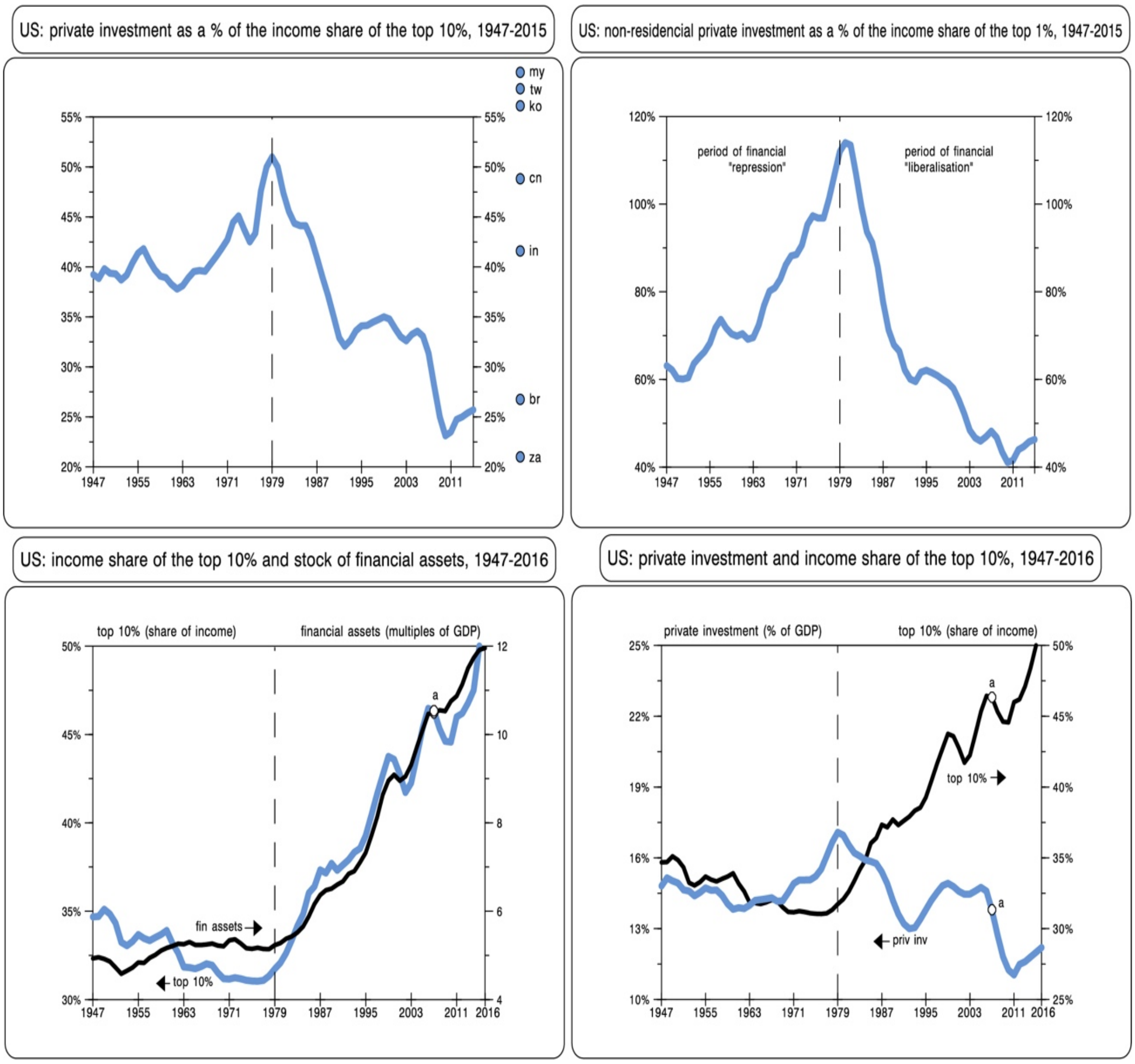
76 Average hourly real earnings have been stagnant since Reagan's election (https://www.pewresearch.org/fact-tank/2018/08/07/for-most-us-workers-real-wages-have-barely-budged-for-decades/). On Ricardo's ideas, see Palma (2020b).

77 Collins and Hoxie (2018).

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

79 EPI (2019).

FIGURE 1



● **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 (2021) for income shares; FED (2021) for financial assets; BEA (2021) for private investment (includes equipment and non-residential structures); and WEO (2021) and WDI (2021) for other variables.

In turn, overall private investment as a percentage of the income share of the top 10% (top left-hand panel) has also fallen by more than half (from 55% to about 25%) —a level similar to Brazil's. That is, no matter how 'abnormal' returns are, and how much 'irresponsible' lending is made, investment levels have collapsed. This is yet another indication of the US —and other high-income OECD countries'— process of (what I have labelled) their "reverse catching up" with Latin America: the higher the share of income appropriated by the top, the lower the proportion of that income that is returned to the economy in a productive manner (see below).

Inevitably, there will events of financial panic —some as unexpected as the outbreak of a pandemic in 2020, while others not so much—, but either of them are now bound to become merely brief interludes from excessive partying as we have reached the bizarre situation in which large speculators can be sure that the new shrink will always be there with his or her attuned, solid and trustworthy presence and a bottomless wallet. So, if the could only remain calm —and solvent— in the face of volatility, a financial distress could become just an excellent opportunity for restructuring portfolios, acquiring assets that might in the past have been lost opportunities. In this totally artificial scenario speculators can acquire a remarkable ability of to navigate shifting markets with bull and bear flexibility.

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 for example in early 2018 (to be analysed in the next section) was part of a new post-2008 and "QE" era —and what happened in 2020 had a feeling of déjà vu about it.

At least some members of the FED are finally getting the point: according to the President of the Minneapolis Fed, for example,

> [W]e 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*.[80]

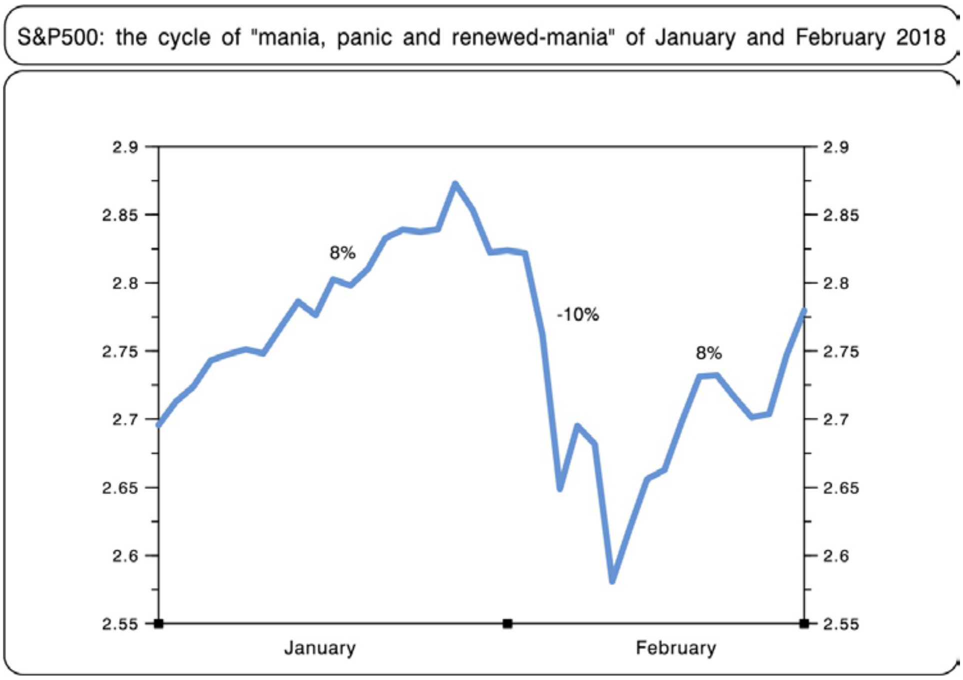
Yes, but mainstream economic theory (although not just mainstream theory) has failed to reinvent itself when faced with the growingly complicated world discussed above —where a lot of peculiar stuff happens—, as it did after the 1930s crash.

4.- The 2018 Roller-Coaster and the 2020 Déjà Vu: the new financial crisis cycle of "manias, panics and renewed manias" in action

An event that already shows the flavour of things to come during the 2020 pandemic is what happened at the beginning of 2018. In the year before the February 2018 fiasco, global private credit expansion reached US$ 6tn, and in the US alone junk bonds totalled US$ 4tn, and half of all investment-grade corporate bonds were already at BBB, *or just one step from junk status*.[81]

Figure 2 shows the sharp swings in the S&P500 during January and February 2018, which was the prelude for the new truncated financial cycle in 2020.

FIGURE 2



[80] Quoted in https://www.ft.com/content/5c2b7d15-7e37-475a-8d42-1e8e0a3b8708 (emphasis added).

[81] https://dailyreckoning.com/heres-where-the-next-crisis-starts/

● 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 (2021).

Basically, big agents in 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 January and February 2018, even though it was certainly no ordinary event as it was characterised by the biggest ever recorded sudden change from exuberance to distress over a period of two weeks since records began more than a century ago. In fact, according to the London's *Longview Economics*, the S&P had *never* fallen so far so fast from a record high as the Dow suffered its worst fall in absolute terms in its history following 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, under 'normal' market conditions all the ingredients needed for a major financial crash were there in abundance. Not anymore.

What happened in February 2018 should go down in financial history for several reasons: first, it was the most vertiginous transition from mania to panic ever. In fact, on February 5 the Dow Jones stock market index plummeted by more than 1,500 points in just a few minutes. Never before in the history of the index had US stocks lost so much in a single day (about 2 trillion dollars). And New York was not alone, as the collapse spread like wildfire to Frankfurt, Sydney and Tokyo. But as there was no apparent discernible real-world economy reason, some blamed it on high-frequency trading going mad (a flash-crash) —many still do.[82] Second, the same happened in terms of a switch 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, to be followed by a baseless 8% jump in January, only for this to switch to an even greater fall in share prices in just nine trading days (-10% in all). However, third, the swift recovery that followed indicated the 'V'-shape of things to come: there was an immediate recovery of the S&P500 in late February (another groundless 8% jump).

As institutional speculators who feed on the mispricing now embedded in asset pricing and on the fuelling of market volatility have learned how to make money on both sides of the cycle, in the panic phase of the following cycle in 2020 (from the market peak in 2020 to its lows in March) short positions notched up paper gains of US$375bn.[83]

What is really new in financial markets is that now *in the midst of a panic* (as in the first week of February 2018) the chief US equity strategist at Credit Suisse could simply say with complete confidence: "Investors … may have been given a gift. … You should be buying into this".[84] And in the next financial panic, at the start of the pandemic, the chief executive at UBS's boosted the same to the FT: "[Our clients] did not [really] panic during the sell-down. Instead they used it to build up positions".[85] Why not? It doesn't take a genius to guess now that what would come next will have a feeling of déjà vu about it. As suggested above, in finance the real thing to fear is the lack of fear itself.

The irony is that endlessly pumping in more liquidity creates the delusion that financial markets can violate the first and second laws of thermodynamics: that they have

82 https://www.bloomberg.com/news/articles/2018-02-05/dow-s-15-minute-plunge-had-elements-of-a-flash-crash-isi-says

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

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

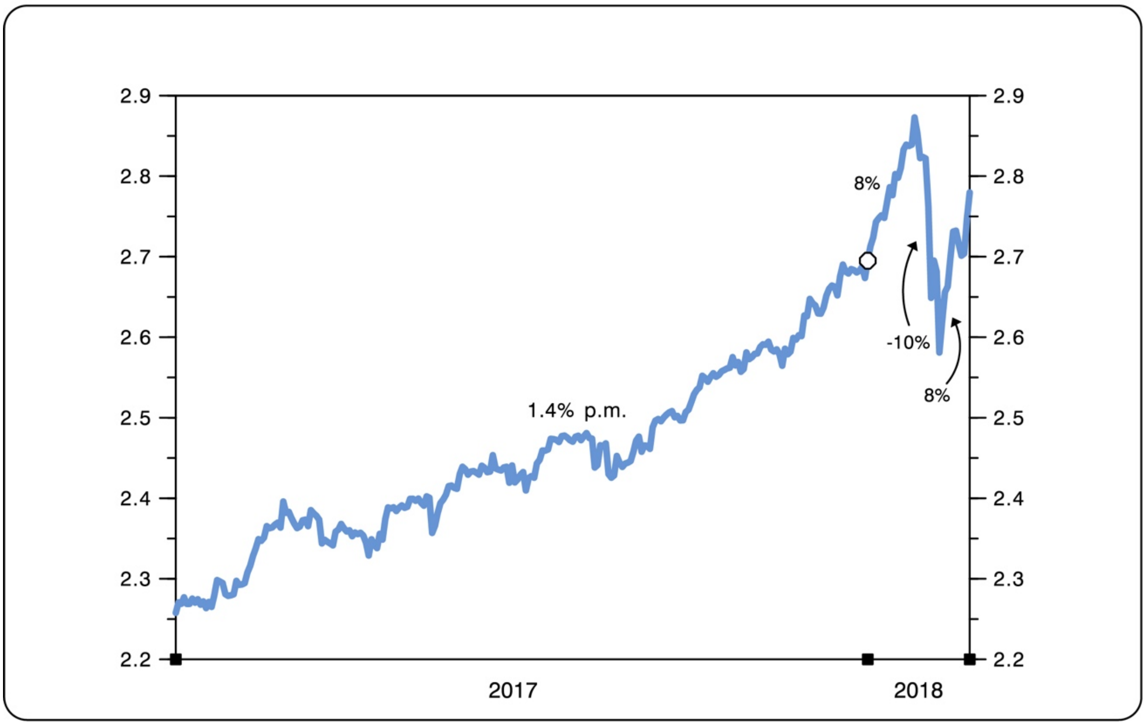
85 https://www.ft.com/content/ab30d301-351b-4387-b212-12fed904324b

now become virtual perpetual motion machines —one in a continuous motion (mania) that requires no real fundamentals as a source of energy.

As already mentioned, events in January and February 2018 took place after a year with the *lowest* share volatility on record. 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 3.)

FIGURE 3

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



- p.m.=per month.
- Source: S&P Dow Jones Indices (2021).

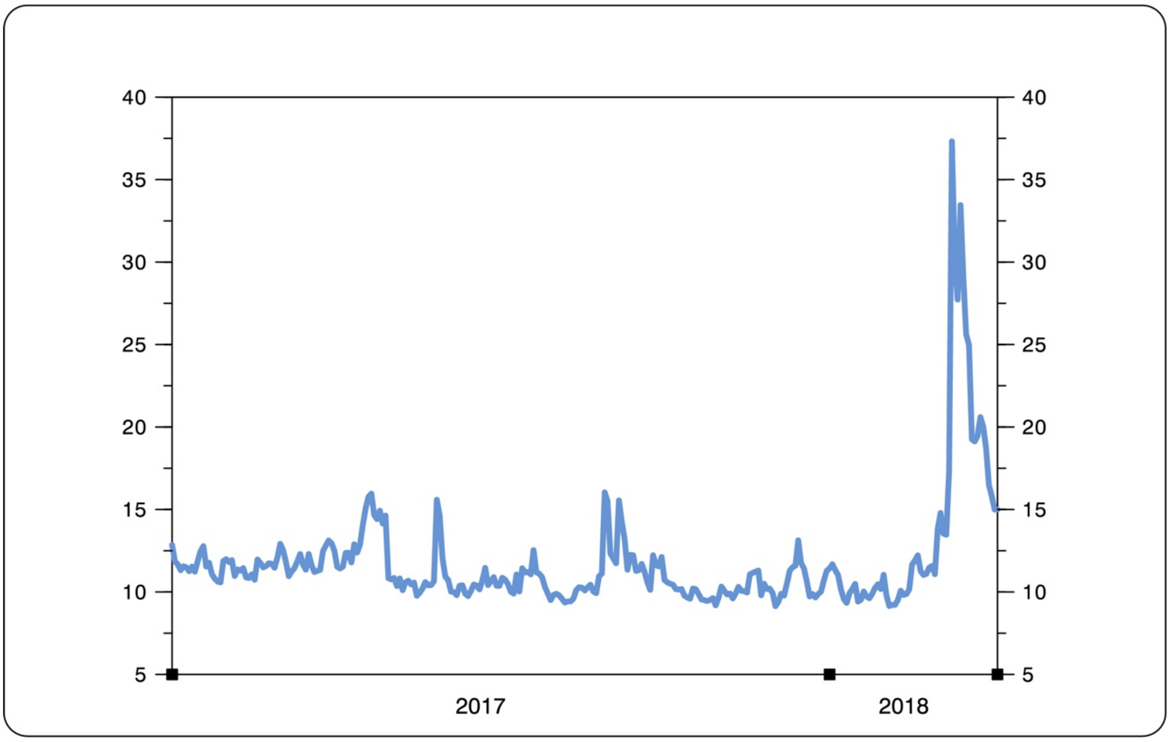
The stable rise of 2017 suddenly switched to a remarkable baseless price-surge in January; and then, equally suddenly this bull market turned into a precipitous fall, losing more than their total January gains in just a few trading days.

The remarkable contrast between the stable growth of 2017 and the sharp swings that followed becomes evident in the Vix (or Velocity Shares Daily Inverse) index of Stock market volatility.[86] (Figure 4.)

[86] 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.

FIGURE 4

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 (as in 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”.[87] For a detailed analysis of events in early 2018, and of the role played in them but what Krugman calls the “up-and-down” economists, see Appendix 1.

Figure 5 indicates how the 2018-“V-shaped” cycle was replicated in 2020. Following a relatively stable 2019 (with many 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* of the collapse (why wait any longer now?). And 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. In fact, all this was just part of Wall Street stocks’ strongest rebound rally since 1936.[88] (Figure 5.)

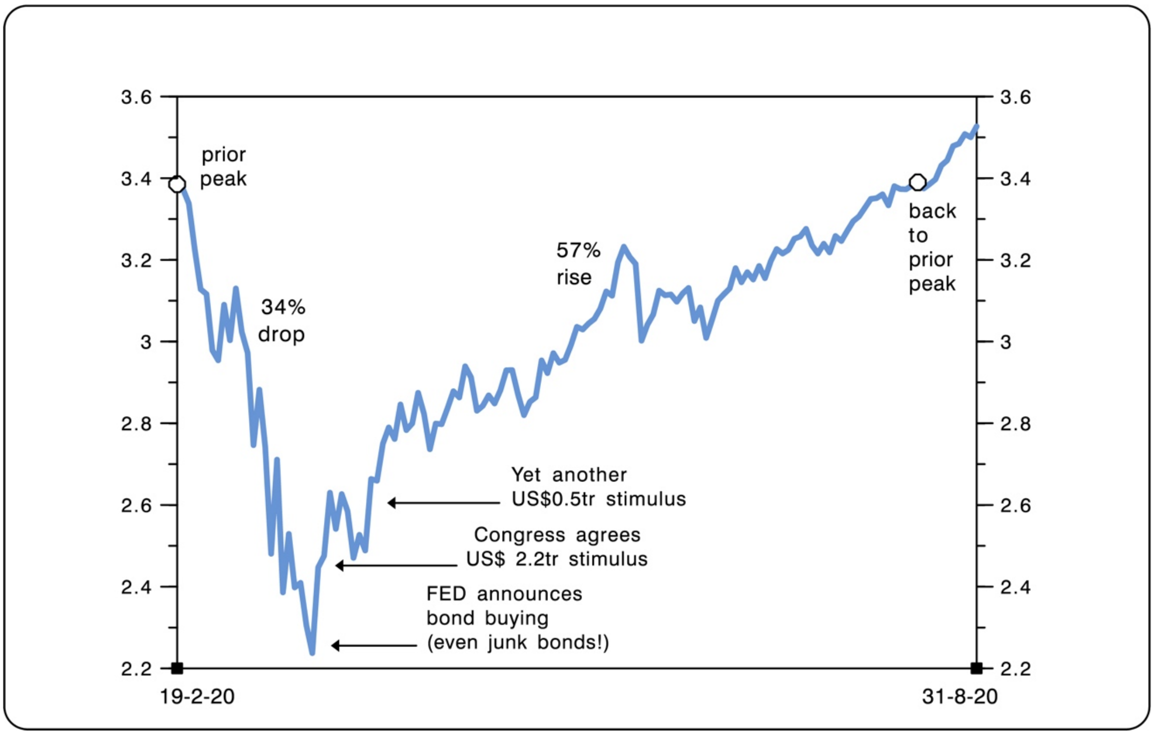
---

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

88 https://www.ft.com/content/35855373-02e8-4cc5-bbe5-2b1d7d23afed

FIGURE 5

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).

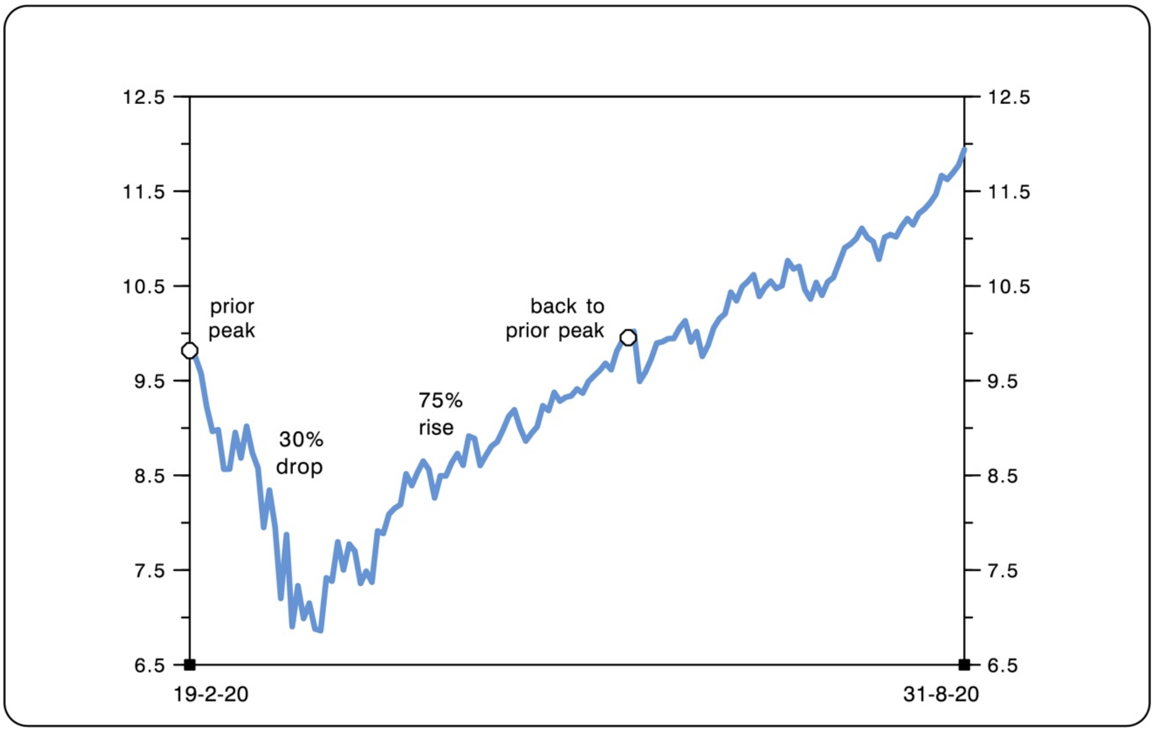
However, this “V-shaped” overall recovery hides its “K shaped” soul: as everybody bought stocks in the obvious five tech giants, they went through the roof; meanwhile, one fifth of companies ended this period still more than 50% below their all-time highs —with the median stock still 28% below its peak.

As a result, those five tech giants now represent more than a fifth of the S&P500; however, antitrust regulators seem to be as unconcerned about this as short sellers.

Figure 6 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 6.)

FIGURE 6

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



● Source: Nasdaq (2021).

The sharp rebound renewed fears about the growing disconnect between 'Wall Street and Main Street', as few shareholders and executives of a handful of firms saw their net worth increase beyond their wildest dreams in the midst of a real economy collapse (Figure 7); and short sellers became an endangered species in this US$13tn rebound.[89] According to Bloomberg, "buying surged among professional investors … despite a recession, stagnating profits and the prospect of a messy presidential election".[90] A falling dollar was providing a further boost.

As Figure 7 indicates, during the second quarter of 2020 the US economy shrank by 9.5% vis-à-vis its previous quarter —at an annualised rate of 33%; however, in an odd adaptation of Archimedes' principle, while output, employment and investment were sinking like stones (along with the new low in the US-China relations and the prospect of a chaotic US election), the S&P 500 was being lifted to a new record high. In fact, 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.

It is hard to imagine a market more ripe for a major correction —one that the policy makers now believe it is their duty to make sure it never happens… 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".[91]

So, perhaps rather than a growing disconnect between 'Wall Street and Main Street', the "new alchemists" seem to have managed to create a new form of 'connect' between the two: the faster the fall in stock prices, the higher the incentive for speculators, particularly

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

[90] Ibid.

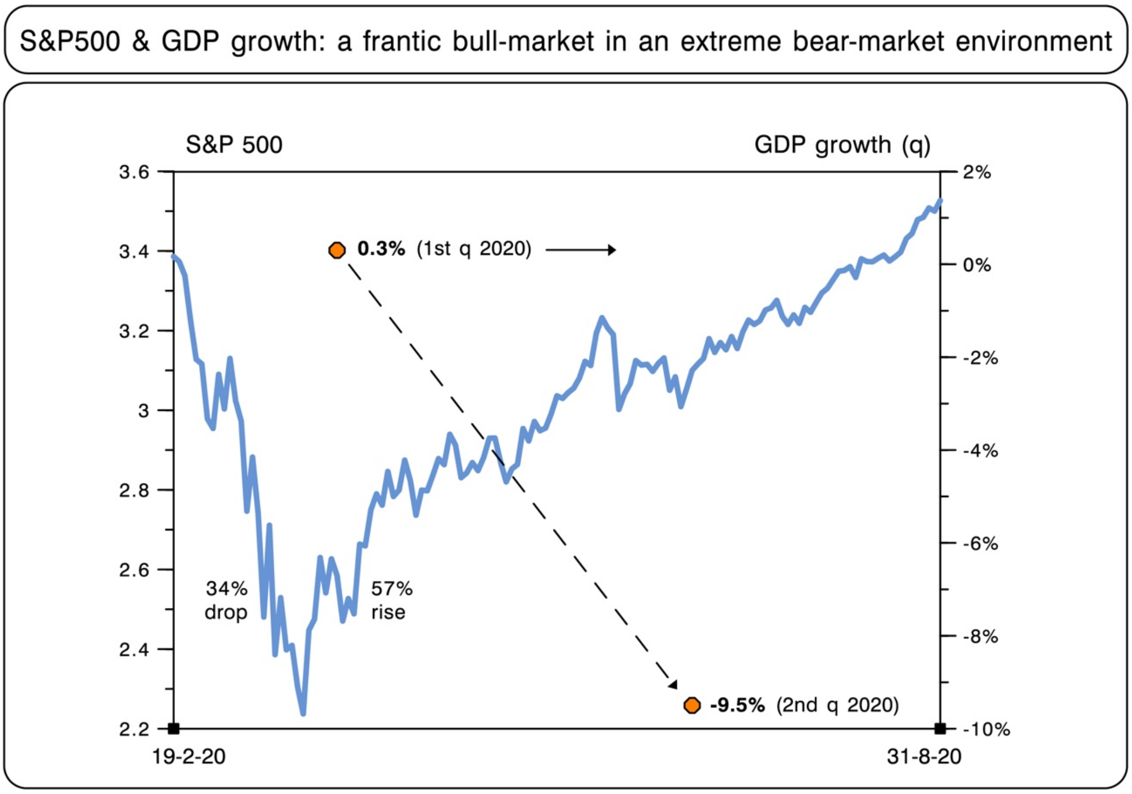
[91] https://vimeo.com/447423565

institutional ones, to start buying stocks again so as not to miss any of the 'inevitable' rebound —inevitable because (as everybody now knows), no matter how overpriced stocks might have been before the fall, central bankers and policy makers will really do all the necessary 'whatever it takes' to force that to happen.

People used to say that there were only two inevitable things in life, death and taxes; well, now the "new alchemists" have added a third one to the list. So, not surprisingly, when in early August 2020, in the same day that the UK authorities announced that the economy had suffered its greatest recession in three centuries, the London Stock Exchange jumped by more than 2%. Nothing like that had ever happened before!

In the same month, one financial insider was even lamenting that "Over the past 15 years we have made an awful lot of mistakes, but our biggest mistake may be that we have not been optimistic enough".[92] (Figure 7.)

FIGURE 7



- **q**=quarter.
- Source: S&P Dow Jones Indices (2020); and BEA Data (2020).

This is not really the world according to the 'efficient capital market' theory… 'Rational' surfers are those who enjoy riding waves, not those who drown trying to create undertows. But this theory, against all evidence, has enjoyed 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".[93] This statement reminds of Mencken's remarks: "For every complex problem, there is always an answer that is clear, simple and wrong": as we now know, under his watch the system already had rampant flows of tainted money (see also below).

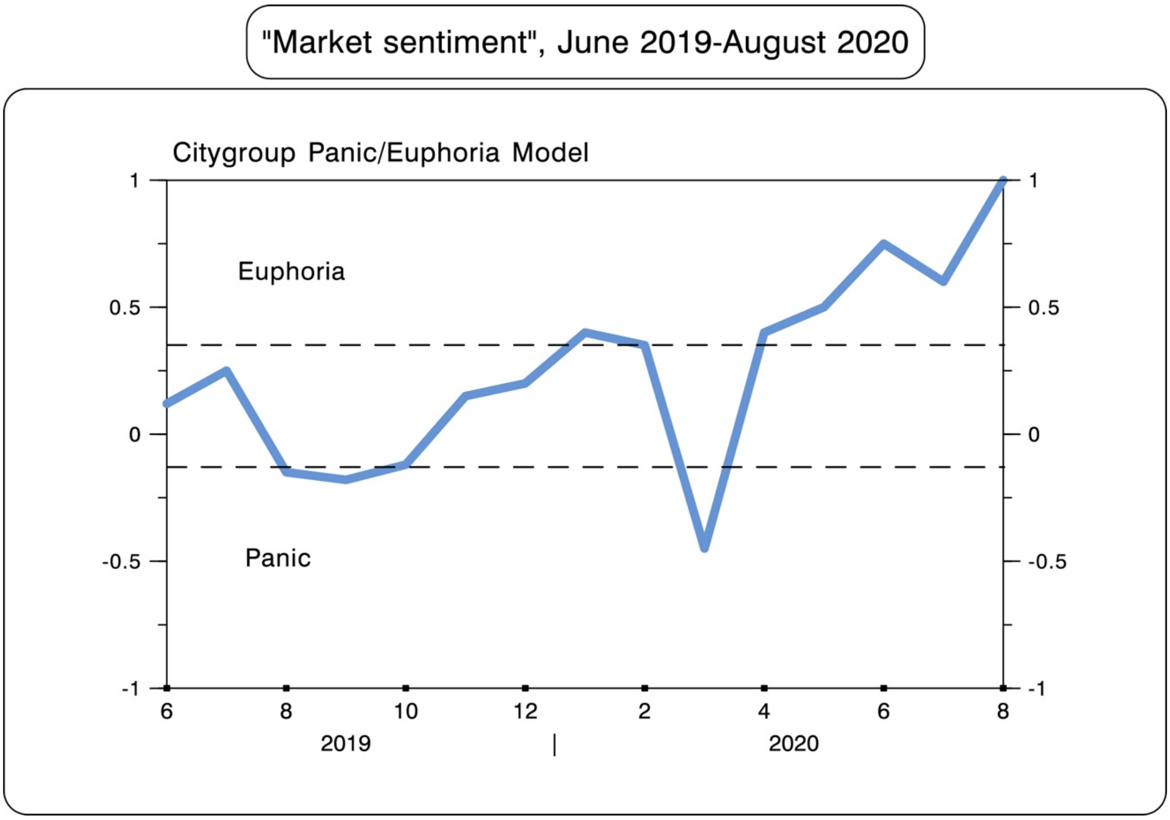
---

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

[93] http://www.dailykos.com/story/2009/3/27/172419/727.
(https://archive.org/details/NotesonDemocracyH.L.Mencken11/page/n41/mode/2up)

The mood in financial markets was so cheerful at the time of the stock market recovery that Citygroup's Panic/Euphoria Model, a sentiment gauge, was in a blissful mood —likewise one not seen since the dot-com bubble. (Figure 8).

FIGURE 8



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

● Source: http://www.city-group.com/

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,[94] 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 operating profits (as opposed to their profits in financial operations) 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.

At least, as discussed above, Daniel Kahneman, Amos Tversky, Paul Slovic, Richard Thaler, David Schkade among others, have made great strides in the area of trying to understand the highly complex nature of human behaviour in economic agents. Long gone are the days when 'common sense' in economics (in the Gramscian perspective) directed towards the understanding of humans as 'rational' agents who always aim to perform optimal actions based on given premises and information. Where everything was supposed to be just 'rational behaviour' on the part of agents reacting reflexively to new information. One only has to think about the repetitive behaviour of many of today's policy makers and central bankers (e.g., "QE" in 2020) to understand this. (Mis)using a concept developed by some of those quoted above, they seem to be suffering more from "anchoring" than most!

[94] On some metrics, the recovery in 1982 was as fast.

5. - "QE" as a Liquidity-Pumping Machine —one that Gave Financialisation a Whole New Meaning

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 financial markets is that operational normality can easily start becoming dysfunctional *for entirely endogenous reasons*, and even turn into manic exuberance, and this into profligacy. Basically, financial markets are more prone to fail than most, and "QE" did indeed help to move things in that direction as it provided what for some (as Kindleberger and many others, including myself) is the usual trigger for this: a sudden jump in liquidity. As already mentioned, in the decade after the start of "QE" in 2008 Central Banks in the US, Europe and Japan, and other central banks like the Reserve Bank of Australia and the Bank of Canada, injected more than US$16tr into financial markets; and then again in response to COVID-19, they pumped another US$9tr.

The crucial assumption (let's rather call it wishful thinking) of this policy is that once "QE" had helped to calm financial markets, a continuous wealth-effect in asset-holders would work as an engine of growth, setting the economy in motion again. However, first, what the "new alchemists" really did in 2008 was to respond to a crisis caused by excess leverage by inducing the creation of more debt —in fact, much more debt of all kinds. And many forms of banking fragilities actually intensified, for example, most US banks' derivatives books became even larger than when Bear Stearns had to be rescued.

Furthermore, second, QE's capacity to reactivate the real economy has been minimal, as distorted market incentives and low propensity to spend by asset holders led this extra liquidity to be used for anything (including, of course, the financial casino) except 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.[95] According to Dealogic, between 2000 and 2017 equity withdrawn from the market reached US$5tr.[96]

Another of the many distortions created by the monetary response to the 2008 crisis is that "…pension savers —virtually all of us— may find to our horror that we are the schmucks".[97]

And the wheels of QE financialisation kept turning; private equity assets under management doubled after 2008; private equity managers borrowed record sums using ever riskier credit facilities; and credit mutual funds tripled in size.[98] And as financialisation promises to boost asset prices on a continues basis, by 2017 over a third of those buying homes in the US 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.[99]

Does Summers really believe that "asset prices will always reflect fundamental values? Or that "the logic of efficient [capital] markets is compelling"? Compelling indeed,

---

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

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

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

[98] See https://www.ft.com/content/0a1067b0-1c9f-11e8-aaca-4574d7dabfb6; and https://www.ft.com/content/dc264fab-90e3-4f29-89a9-66e20005af02

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

as sub-prime mortgage bonds are back in fashion;[100] and credit default swaps are making a big comeback "even though it is patently clear that they are not fit for purpose".[101]

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".[102] Well, now they just seem to swing from fragility to fragility.

6. - Financialisation in emerging and mature markets

Understanding 'financialisation' as defined in the introduction: there are two related phenomena involved, one relates to the growing size and dominance of the financial sector relative to the non-financial sector, and the other to the diversification towards financial activities in non-financial corporations. The first relates to phenomenon such as the mounting power of the financial sector and its growing ability to capture policy, its ever greater capacity to generate easy rents, and its increasing capacity to extract value generated by others. The second, meanwhile, relates to the switch of the composition of earnings in non-financial corporations from operating profits to financial rents, which —as Ricardo emphasised— is bound to have a negative impact on investment, technological absorption and productivity growth.[103] Both developments lead to the productive sector becoming ever more subservient to the logic of financial markets, part of a process of subordination of the real economy to the financial sector that takes place *in advanced and emerging economies alike*.

6.1 Financialisation in emerging markets

In emerging countries, of course, there are two dynamics of subordination involved: one is the already mentioned between the real sector and the financial one; the other is between domestic finance and the cycles and behaviour of international financial markets (as highlighted by the "international financial subordination hypothesis"; IFS).[104] The second is especially relevant in countries with a troubled financial history, such as Argentina. However, when it comes to most emerging markets, the main driver of the transformations that led to financialisation can be found *at least as much at home as abroad*.

In Latin America and South Africa (Africa's honorary Latin American country), for example, no one pushed more for the full opening of the capital accounts than their rentier domestic elites seeking to generate a whole new source of easy rents —including acquiring the property right for capital flights. In fact, this was a key component of South Africa's political settlement ending apartheid, even though the white elite did not have this right before. And they surely used it after the start of democracy! Furthermore, the whole package of economic policies implemented by Mandela's government was anchored on this: as they needed foreign exchange to finance this capital flight, and as their reserves were practically no-existent, interest rates had to be set sufficiently high so as to attract short term speculative flows for this —and the real economy practically stagnated throughout (with investment as a share of GDP reaching just 17% on average during his term in office, and average annual productivity growth at just 1%).[105]

The same happened in Chile after the 1973 coup: for the Chicago Boys this was an essential part of their crude neo-liberal reforms —and again, it did not matter at what cost

---

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

[101] https://www.ft.com/content/a6cd6130-542f-11e8-b24e-cad6aa67e23e?tagToFollow=9100db92-d634-4c0e-aece-e2a59eada73b.

[102] See also Minsky (1992).

[103] For an analysis of Ricardo's ideas in this respect, see Palma (2020b)

[104] For the IFS, see especially Alami et al. (2021).

[105] WDI (2021).

(the average investment rate during the first decade of their reign stood at less than 16% of GDP). In their fundamentalist vision of policy making, the opening of the capital account was a sacrosanct right of the elite.

This is not to say that the Washington Institutions and Wall Street were not seeking the same result, or that 'help' during the difficult 1980s did not come with tough 'conditionalities'; but to argue that somehow this only happened because these were helpless nations that somehow were trapped in a hierarchical world economy that coerced them to do that is to miss the point entirely. In fact no domestic elite in the whole world were more in favour of this that those in countries with complex domestic politics, as the ones mentioned above.

Meanwhile, the growing internationalisation and orientation towards financial activities of the main *domestic* conglomerates in these countries led to such a new form of integration into international finance that domestic financial markets have been transformed beyond recognition. In turn, what happened in emerging Asia in this respect is not that different, except that change took place in slow motion —but this changed gear after the 1997 financial crisis.[106] But again, domestic elites here were nearly as eager of this openings as their more rentier-oriented counterparts above —including that of Korea.[107]

Therefore, some of the more established forms of heterodox analysis of development, such as those of "Dependency", "Structuralism" and some early ideas in "Post-Keynesianism", as well as some new related narratives such as that of IFS —with their emphasis on core-periphery relationships, uneven development, the 'development of underdevelopment', international currency hierarchies, and so on— now have a significant analytical challenge ahead: their traditional emphasis on 'nation states' as the centre of gravity in their analysis is now no longer appropriate in finance. This is, of course, also true for traditional mainstream neo-classical analysis.

The key agent that should be taking centre stage in the analysis of the economics and politics of financialisation in emerging markets, however, has now largely switched from the above mentioned 'nations' trapped in a hierarchical world economy that coerces them to integrate into the world market, to changing domestic politics and agencies, and the leading role in them of their large domestic (though internationalised) corporations. They are the ones leading the process of financialisation at home. They not only were the main agents engineering the domestic reforms that led to this new reality, but they are also the ones that have benefited most from it.

The fact that Latin America has been adding millionaires, centa-millionaires and billionaires to the Forbes' list (as defined by them) faster (in relative terms) than any other region in the world (at times, China apart) is not an unrelated phenomenon! And none faster than in countries that have been led by the 'new-left', such as Brazil and Chile. In fact, during Lula's period in office, the numbers of millionaires, centa-millionaires and billionaires trebled. In 2013, for example, while the real economy lagged behind, according to this Report one additional person became this type of millionaire every 27 minutes. Today there are more billionaires in Brazil than in Korea, and more in Chile than in Saudi Arabia.[108]

Key agents of international finance and international institutions, of course, had the same 'policy-opening' aim in mind, and large international financial corporations have also greatly benefited from them, but it was their domestic allies who were the ones really capable of manipulating politics and markets at home so as to make these transformations possible.

These domestic agents, as well as their political allies —including a remarkably corrupt domestic political one— also played a crucial role in transforming the neo-liberal ideology at the basis of all this into an hegemonic one. Let's not forget the "Magnificent

[106] See Palma and Pincus (2022).

[107] See Chang (2000).

[108] Forbes (2021). See also previous reports.

Seven", those visionary leaders who selflessly pioneered these transformations: Pinochet, Salinas, Menem, Fujimori, Collor, Pérez and Bucaram ─what a collection of thugs!

From this perspective, even though Foucault (2004) insisted that "in order to develop more sophisticated technologies of power one needs *more sophisticated forms of knowledge*", it seems that this can also be done with pretty unsophisticated ones…

6.1.1 - Some theoretical issues regarding financialisation in emerging markets

In the traditional development analyses, being 'in the wrong place' in a hierarchical world economy was supposed to shape and constrain the autonomy of individual nation states (including their policymaking), and be responsible for their weak economic structures as well as their exposure to recurrent crisis and vulnerabilities due to exchange rate instabilities, high interest rates, imposed fiscal austerities, etc. In the new world, however, the emphasis of the analysis should switch to the articulation of a new type of domestic conflict involving a multiplicity of actors and struggles. And as these conflicts are by nature antagonistic, they belong to the arena of "the political" —and as such, they cannot have merely logical solutions.[109] Not surprisingly, then, that what we find in the new financialised scenario is that emerging markets now live in a world of *multiple equilibria*.

There are, of course, common factors affecting all emerging markets, and none more than the continuous predominance of the dollar in this financialised world; but, over the last two decades at least some emerging markets have built up their domestic-currency-denominated debt markets in a variety ways —so now about 90% of the sovereign bond market is in local-currency bonds.[110] In turn, negative real yields in the North have made such bonds an attractive asset class for foreign speculators, who now hold about one-fifth of them. However, due to that fact, and the openness of financial accounts to domestic agents, among other factors, own-currency bond issuance has not absolved emerging markets from the 'original sin', as their domestic bond markets are still highly sensitive to the global dollar cycle —as during the "dash for cash" at the beginning of the pandemic (when the appreciation of the dollar and the loss of confidence on emerging markets capacity to deal with the economic impact of the pandemic) led to a massive local-currency-bond market sell-off.

But now the FED cannot ignore the impact that this new dollar-cycle has on emerging markets anymore —as Volker did during his radical monetarism at the end of the 1970s, which led to the 1982 debt crisis.[111] So, now the FED not only had to do the usual thing (relaunch its dollar swap lines with central banks of some key countries), but it was also forced to provide central banks of emerging markets with a brand-new type of repurchase agreement facility, which allowed them to exchange their US Treasury securities for dollars at their pleasure —so as to dissuade them to dump the securities for cash in the open market.

So, although the dollar continues to be the dominant factor transmitting financial volatility to the South, now the (somehow also a bit 'subordinate') FED has little option but to take that volatility seriously into account.[112] Also, the emergence of China, and to a lesser extent that of India, as key players in international finance has increased the financial degrees of freedom of other emerging countries —as well as given them other constraints; for example, how China (now the main trading partner of almost all countries in the region) tends to use trade and finance as a form of pressure to dissuade Latin America from industrialising its commodity before exporting them to China.[113] So, this new obstacle to the

---

[109] Laclau y Mouffe (2011).

[110] https://www.phenomenalworld.org/analysis/acute-dollar-dominance/

[111] See Palma (2012).

[112] See, for example, https://www.bis.org/publ/work695.htm; https://www.bis.org/publ/qtrpdf/r_qt2012b.pdf; https://www.bis.org/publ/cgfs66.pdf; and https://www.bis.org/publ/arpdf/ar2021e.htm

[113] China only wants Chilean copper as 'concentrates' —i.e., a mud with only about 30% of purity—,

industrialisation of commodities in home countries has become another common factor (as the continuous predominance of the dollar) affecting the entire region. Financialisation has really transformed finance into a new ball game!

As I have emphasised in previous works (e.g., Palma, 2016a), the real question which we should ask ourselves is why —it being obvious that the capitalist economy tends towards a growing globalisation and financialisation, that societies are divided into antagonistic classes, and that the particular is to a certain extent conditioned by the general— we have not gone beyond the partial (and therefore abstract and indeterminate) characterisation of the historical process of emerging markets.

That is, if the internal dynamics of emerging countries are one aspect of the general dynamic of global capitalism, this does not imply that the latter produces concrete effects in the former, but only that it finds *concrete expression* in their internal dynamic. The system of external domination reappears as an internal phenomenon through the social practices of local groups and classes, *who share the interests and values of key external forces*. Other internal groups and forces oppose this domination, and in the concrete development of these conflicts the specific dynamic of these societies is thus generated.

Therefore, it does not really help our understanding of the internal dynamics of developing countries to continue seeing the world capitalist system as one in which the development of one part somehow necessarily requires the underdevelopment of the other —and that this part of the system can do very little about it because it has been reduced to a relative passive role determined by the other. Nor is to continue believing that the success of emerging Asia is just a one off special case because realpolitik led the West to lift traditional development constraints in them (and only in them).

The main story of financialisation in emerging markets is not really about somehow automatic consequences of processes of structural national subordination, *but about how domestic agencies, conflicts and choices have lead to a world of growing multiple equilibria.* Again, here one has only to think about the remarkably different routes taken by emerging countries in Latin America and Asia, even though both have little choice but to engage with the same (ever more weird) global capitalist system. While in the former —all the way from the 1982 debt crisis and the neo-liberal reforms that followed to their current processes of financialisation— it has been all about sinking slowly into the quicksand of a "middle-income trap", in the latter (paraphrasing George Bernard Shaw) it has been about "dreaming things that never were, and saying 'Why not?'"

If Latin America is the basket case that it is politically, institutionally and economically, we have no one else but ourselves to blame! No one forced nearly 60 million Brazilians (over 55% of those who voted) to vote for Bolsonaro. Since he had been a Federal Deputy for Rio de Janeiro for nearly three decades, they knew exactly what they were getting. Nobody forced the region to have a level of average productivity that has now been stagnant for more than four decades either (Palma, 2019b); the total inability to upgrade its already exhausted dual-extractive model is basically a home product —China doesn't help, but it doesn't send its marines as another bully did in the past.

One should not underestimate the role that these common elements play in all developing countries, but it is precisely the diversity within this unity that characterises their historical processes.[114] Thus the analytical focus should be oriented towards the elaboration of concepts that can explain how the general trends in capitalist expansion are transformed into specific relationships between individuals, classes and states, how this in turn reflects back upon the general trends of the capitalist system, how internal and external processes of

---

and it is prepared to put pressure on mining conglomerates so that they don't refine this mineral in Chile. In the 1960s, when US corporations controlled cooper in Chile, at least they exported it as copper bars… China is also the only country in the world that buys Chilean walnuts in their shell! (Palma, 2019b). It also wants Brazilian iron as iron ore, Argentinean soya as beans, Venezuelan heavy-oil unrefined, and so on..

[114] Cardoso and Faletto (1977); Palma (1978).

political domination reflect one another, *both in their compatibilities and their contradictions*, how the economies and polities of emerging markets are articulated with those of the centre *and how their specific dynamics are thus generated*.

Oligarchies in the South have always sought easy sources of income derived mainly from the ownership, possession or control of scarce rent-bearing assets —in what Douglas North (2007) has labelled "limited access orders", where political elites seeking to maintain cohesion divide up the control of rents and block the access of others. What is new is how the rentier orientation of these key new agents (the domestic though internationalised conglomerates) has now gone well beyond traditional rent-bearing assets, such as minerals and land. Now they include many other forms of physical assets, legal entities (such as intellectual property rights), rents that come from their remarkable capacity to capture policy making,[115] and rents that come from the overt utilisation of their power to control finance and other sectors of the economy due to an almost unrestricted market concentration.[116]

Therefore, key domestic struggles in most emerging markets, such as those in Latin America, are now mainly about elites trying to secure access to an ever increasing variety of easy income sources from a much more diverse range of rent-bearing scarce resources —whose scarcity is often as much self-constructed as real.[117] The process of privatisation of natural resources and state corporations at the beginning of the neo-liberal reforms, for example, let alone their remarkable levels of corruption, was very much part of this 'rent-diversifying' drive. In turn, the process of financialisation —which required the full domestic financial deregulation and external financial liberalisation, as well as increased liquidity— was also an ingenious construction that opened up a whole new world of easy rents not just for international finance, but also for these rent-seeking domestic conglomerates when other forms of rents were facing some inevitable diminishing returns. And the fact that these easy rents are being used for almost anything but productive purposes (a local tradition), is as much part of the dynamics that have led to the sinking into the 'middle income trap' as financialisation itself. In both processes —growing financialisation and the unproductive use of all forms of easy-rents, including those of finance and natural resources— some domestic actors have been at least just as involved as international ones.

In turn, financialisation has also provided an extra advantage for domestic (though internationalised) corporations: becoming 'too big to fail'. This artificially created 'externality' has become an effective form of blackmail —if they go, everything else goes with them—, so the rest of society can now be held to ransom if their property rights over their ever growing variety of rent-bearing assets (no matter how corrupt was the form in which they acquired them) were to be challenged. In other words, the 'too big to fail' comes within a package that also includes the 'too big to be challenged', and the 'too big to jail'. Large domestic conglomerates of this kind, North and South of the Equator, have also acquired the right to claim all kinds of subsidies to secure their privilege position at times of financial distress —even if the trouble is entirely of their own making.

In short, one should also look at financialisation from Walter Benjamin's perspective (1966): as in all class societies rulers are always under threat, they live in a permanent a state of emergency.[118] From this perspective, one can think of neo-liberalism as an ideology aimed at building a consensus and a praxis —and a "common sense"— that would help to create a

---

115 Those of us in Chile who have been trying to get through Parliament a new law on mining royalties have a few stories to tell…

116 As a former head of the main business association in Chile, and CEO of a large conglomerates explains, "Chile was transformed into a market economy in name only" (see Palma, 2020b).

117 As oligarchies have already raided every possible natural resource (in Chile they now claim even rainwater and melting snow as their own), one might reasonably ask, paraphrasing Nicolás Guillén's poem "¿Puedes?", what they would like to claim next? The oxygen of the air? The waves of the sea? The rays of the sun? Patches of heaven? The remains of dinosaurs? The sulphur from the volcanoes? The water of the Antarctic glaciers?

118 On 'states of emergency', see also Arantes (2007).

class society in which rulers escape this threat by their ability to *debilitate* the rest of society enough by imposing a continuously insecure life on them. In this scenario, to be a financially mobile and malleable agent help achieve an unrivalled dominance. In the jungle, big capital —especially of a rentier financialised type— is king!

And then the temptation for the ‘new left’ was too hard to resist: if you can't beat them, join them —because in a context like this, any progressive nationalist development agenda attempting to challenge this growing process of financialisation, and its poor economic performance, could run the risk of becoming a collective suicide pact.

What the history of the global South teaches us is that for this type of progressive agenda to succeed requires a sufficiently large and strong domestic constituency behind it to be able simultaneously to take on all the ‘usual suspects’ (in the form of international and domestic forces) that would fiercely opposed it. This constituency is required, for example, for the State to be able to impose East Asian-style ‘discipline’ on capitalists (and sometimes on workers) to be able both to build up an economy scenario in which *rents have to be used productively*, and construct low levels of inequality *in the sphere of production* (as that found in countries such as Korea and Taiwan).[119]

When Pope Francis, speaking about finance, said that “A new, invisible and at times virtual, tyranny [has been] established, one which unilaterally and irremediably imposes its own laws and rules”, surely he was not just referring to international actors, but to domestic ones as well![120] (He knows, he comes from Argentina…).

Oddly enough, financialisation in emerging markets has at least brought some positive externalities for the rest of society, such as providing domestic elites with an expedient ‘exit strategy’; so, Latin American oligarchies are now able to become a bit more democratic. That is, as Boix (2003) emphasises, it is easier for them to take this risk if they are no longer geographically tied by ‘fixed’ investments, such as land and machinery, as they were in the past.

6.2 - Financialisation in advanced countries and their process of ‘latinoamericanisation’

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 commitment to use it productively. Keynes (1919), for example, discussing the (investment-intensive) ‘Third Technological Revolution’,[121] emphasises the contrast between the new rich in ‘emerging’ Germany and the US vs. those in Britain:

> The new rich of the nineteenth century … preferred the power that 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.

Intolerable indeed! However, 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 by rentier capitalists on their own ‘enjoyments’ —including, of course, at the financial casino. In contrast to what Keynes said about their counterparts from another epoch, the behaviour of most of today’s rich is something akin to the ‘discreet charm’ of the (now globalised) Latin American bourgeoisie.

---

[119] How the latter (although certainly not the former) happened in Chile due to a combination of factors during its short period of dynamic growth (1986-1998), see Palma (2019b) and (2020b).

[120] https://uk.reuters.com/article/pope-economy/pope-rails-against-dictatorship-of-the-economy-urges-reform-idUSL6N0DX27N20130516

[121] On this third great surge of industrialisation, that of the ‘Age of Steel, Electricity and Heavy Engineering’, see Pérez (2002).

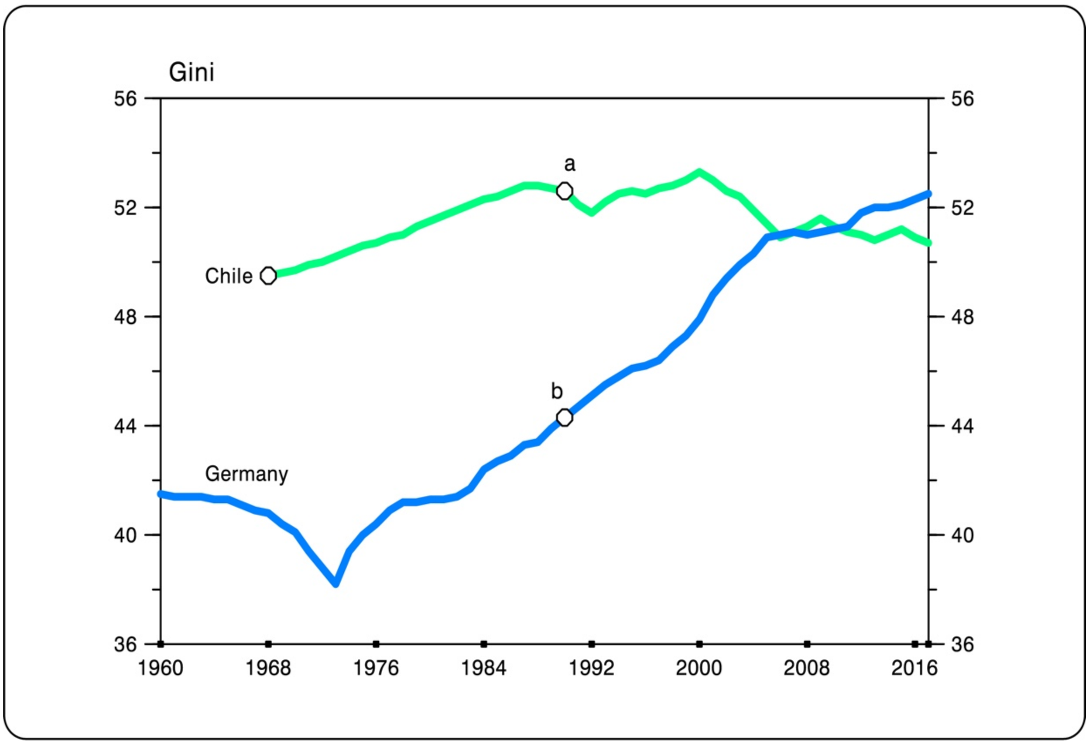
Meanwhile, the countries of emerging Asia —the eternal heretics of neo-liberalism— have used this opportunity to turn the table on this 'latinoamericanised' west:

> 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.[122]

It has surely not helped that Germany's now latinoamericanised market inequality (i.e., before taxes and transferences) has become even worse than China's (Ginis of 52.1 and 46.9; SWIID, 2020). In fact, its market inequality has been in a phase of "reverse catch-up" with Latin America since the 1970s (Figure 10), and by this metric the US is also already more unequal than Mexico. So now we see countries in Europe and the US (with Japan not far behind) with a market income distribution characteristic of countries south of the Rio Grande.

FIGURE 10

Germany & Chile on market inequality: a process of "reverse catching-up"?



● Market Gini=Gini before taxes and transfers; a=Chile's return to democracy; and b=German reunification.

● Source: SWIID (2021).[123]

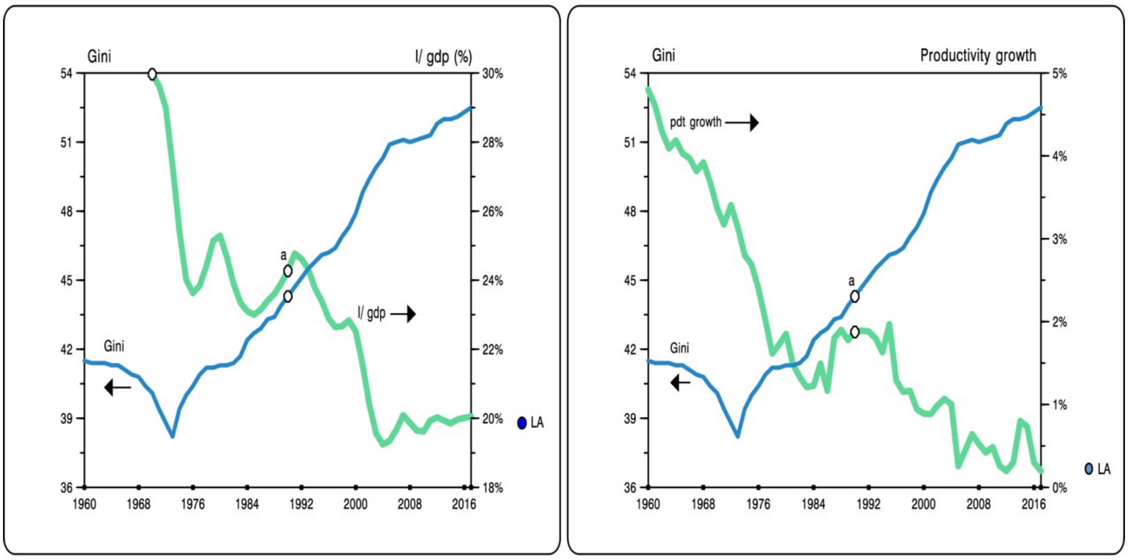
In turn, and perhaps not surprisingly, while its market Gini went up by 14 points, Germany's share of investment in GDP and its rate of productivity growth collapsed, becoming now similar to the Latin American respective averages since 1980 as well. Figure 1 above indicated that the same had happened in the US. (Figure 11.)

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

[123] As this source (and similar ones) unfortunately does not provide information by deciles, it is not possible to work with the Palma Ratio methodology.

FIGURE 11

Germany: market inequality, investment as a share of GDP and productivity growth, 1960-2017



● LA=Latin-American average since 1980; **a**=German reunification; I/gdp=investment as a share of GDP; pdt growth=productivity growth. 5-year moving averages for productivity growth, and 3-year ones for investment.

● Source: SWIID (2021), and WDI (2021).

Part of the problem of real economy in financialised advanced markets is the corporate "self-cannibalism" highlighted by the chief economist of the Bank of England (see above). He also points out that where shareholders in the UK used to demand about 10% of corporate profits, in a financialised economy 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 firm's long-term health. For Keynes (1936), in contrast, the health of the corporate sector depends on building a relationship between shareholders and firms "like a marriage".

In turn, as financialisation has been associated with low levels of corporate investment and rising corporate saving, it has ended up being a major contributor to 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.

There were, of course, many other things happening in high-income OECD countries than just financialisation; however, most point in the same direction of a "reverse catch-up" with features of middle-income countries such as those in Latin America. As the figure indicates, in Germany investment as a share of GDP fell from 30% to 20% (becoming in the process similar to the average Latin American ratio since 1980), which led productivity growth to do the same, from an average of about 5% p.a. to close to zero (again, similar to the Latin American average since 1980).[124]

Meanwhile, as 'light-touch' regulation relaxed operating standards, corruption in the North became ever more common —the 'too big to fail' and 'too big to jail' connection. We now know, for example, how five global banks — Deutsche Bank, JPMorgan, HSBC, Standard Chartered, 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$ 2tr.[125] And HSBC's subsidiaries were also transporting billions of dollars of cash in

[124] See Palma (2019a).

[125] FinCEN Files (2020).

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 of drug cartel's money from Mexico into its own 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.[126] In turn, the Danske Bank €200bn money-laundering scandal, the world's biggest, exposed the extent of Europe's tax evasion and avoidance −with UK partnerships (largely LLPs) being the second largest non-resident client at Danske Estonian offending branch.[127]

In turn, when Purdue Pharma and other drug-makers encouraged over-prescription of opioids, leading to overdoses and addiction that according to US government data resulted in at least 450,000 overdose deaths between 1999 and 2018, and millions to opiod addiction, there was just a fine and no one went to prison.

Perhaps Greenspan was right when he said that 'rational' markets seem to know how to take care of themselves… As a law professor states (commenting on how the Trump Administration spared corporate wrongdoers billions in penalties), "There's no reason anymore to fear prosecution for committing serious corporate crimes".[128] And if anyone is unlucky enough to be prosecuted, why fear the consequences? If convicted for a huge tax fraud, for example, instead of going to prison one may be just sent back to university! A Chilean judge recently punished two corporate executives convicted of a major tax fraud to take a single one semester course on business ethics (with the condition that they had to get a passing grade!).

But declaring that corruption is intrinsic in over-liquid and poorly regulated 'too-big-to-jail' financial markets is a bit like going to the circus to watch a magician sawing a person in half and then complaining that it's only a trick.

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 … [and all this] 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".[129] Mariana Mazzucato (2018) also defines rentier capitalism 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 for the Latin American elite (financial or otherwise): the fact that its preference is now for getting rich not just by appropriating an ever increasing variety of easy rents, but also by extracting value, in ever more ingenious ways, from those who actually create it.

In sum, rather than bringing to Latin America some new and more civilised advanced Western practices, globalisation and financialisation ―including their emphasis on market deregulation and the emasculation of the state― has instead brought to the developed world a great deal of "latinamericanisation".

6.3 - On the 'natural' state of capitalism with deregulated markets and emasculated governments: how easy rents give rise to lazy elites

As I understand it, the key lesson from all this is that the 'natural' state of deregulated markets with a (so-called) subsidiary States seems no longer to be a dynamic process of capitalism, in which competitive markets are capable of developing the productive forces of

[126] See https://www.icij.org/investigations/fincen-files/global-banks-defy-u-s-crackdowns-by-serving-oligarchs-criminals-and-terrorists/; and https://www.theguardian.com/business/2012/jul/17/hsbc-executive-resigns-senate; and Palma (2020b).

[127] https://www.ft.com/content/df942f22-f267-11e8-ae55-df4bf40f9d0d

[128] https://www.nytimes.com/2018/11/03/us/trump-sec-doj-corporate-penalties.html

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

society, as envisaged by Marx and Schumpeter, among many others. Instead, they are only able to deliver a feeble process of capitalism à la Latin America, where markets are dominated and distorted almost at will by large rentier agents who cease to be price-takers and rules-takers a long time ago —two key necessary conditions for markets to be able to deliver growth and wellbeing in an efficient and effective way.

Thus, financialisation in advanced countries should also be understood as another step in the building-up of this new kind of rentier-capitalism in which easy rents (in this case financial ones), of the 'low-hanging-fruits' variety, rule —à la Latin America. This process of "reverse catching-up" of the economics, politics and institutions in the high-income OECD is one of the most significant (and ignored) developments since Reagan and Thatcher —and especially since the fall of that infamous wall.

Meanwhile, in Latin America financialisation has provided just another source of easy rents, of the type to which their oligarchies have been accustomed.

As I have already suggested, emerging and low-income Asia cannot believe their luck, since all this gives them a clear run on most of manufacturing production —and as a result, while average productivity growth from the 2008 crisis until the start of the pandemic in 2019 only reached an average of 0.4% p.a. in the European high-income OECD — with countries such as Germany, Austria, Netherlands, Norway, Finland, Switzerland, Italy and Greece below this meagre average—, and no productivity growth at all in Latin America and just 0.3% in South Africa, during this period it reached 7.6% in China, and 6.3% in India, 5.2% in Viet Nam, 5.1% in Bangladesh, 4.4% in Sri Lanka, 4.2% in Cambodia, 3.8% in the Philippines, 3.5% in Indonesia, 3.1% in Thailand, and so on.

The idea that so many new productive capacities in manufacturing emerge in Asia is due only to the abundance of cheap and 'discipline' labour, must be by now one of the most convenient story-line invented in economics. It just serves to justify the rentier behaviour of élites in the West as well as in Latin America and South Africa. It may well be a factor, but as Palma and Pincus (2022) analyse, the story is surely far more complex than that.

Ricardo would probably not be surprised by events in the west, as for him *easy rents lead to lazy elites, weak productivity growth and stagnant wages*.[130] For him, the need to distinguish between the nature of rents and operating profits was fundamental for both the analysis of distribution and of growth. In fact, he insisted that the main problem with economic theory at the time [with the partial exception of Malthus] was that

> Adam Smith, and the other able writers to whom I have alluded [Turgot, Stuart, Say and Sismondi], not having viewed correctly the principles of rent, have, it appears to me, overlooked many important truths, which can only be discovered after the subject of rent is thoroughly understood. (1821).

It is remarkable how neo-liberal reforms triggered the high-income OECD to embark upon this process of "reverse catching-up" with the tropics. As is well known, one key Washington Consensus promise was that if their package of policies and structural transformations were implemented, what would follow would be a process of "convergence" across the world. In other words, if everyone behaved themselves, there would be a rapid process of closing the productivity gap between countries. And this convergence would occur not only in income per capita terms, but also in institutions, in inequality, and so on.

In fact, what market deregulation with subsidiary States, globalization and financialisation did achieve was a process of convergence across the world —but in the opposite direction![131] Instead of encouraging Latin America to "Europeanise", this new

[130] In the US, average hourly real earnings have been stagnant since the election of Reagan (https://www.pewresearch.org/fact-tank/2018/08/07/for-most-us-workers-real-wages-have-barely-budged-for-decades/). On Ricardo, see Palma (2020b).

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

environment 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, therefore, albeit for different reasons, the convergence would be of the kind also predicted by the Washington Consensus. If it ever actually was like this, it certainly isn't now. Now, our convergence, in this neo-liberal era, is towards features that are characteristic of some highly unequal middle-income countries, such as mobile élites creaming off the rewards of economic growth (in a new winner-takes-all scenario), and of 'magic realist' politics that although lacking any self-respect, they have plenty of originality.

I never expected to live to see the US being led by a president who only lacks dark glasses and a military uniform to look like the leader of some banana republic. No wonder Pope Francis has called unfettered free markets the "dung of the devil".[132]

Indeed, life in high-income OECD countries is no longer as easy as their income per capita might suggest, as one now has not only a family but also a plutocracy to support. Welcome to the Third World!

7. - How did Emerging Markets Become "the Wrong Place"?

By some estimates, after the FED began buying bonds in 2008 up to US$7tr of "QE" funds flooded emerging markets in no time (Wheatley and Kynge, 2015). 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. However, a significant amount of those funds ended up as emerging markets' corporate debt —often after being leveraged into many multiples of their original value (see, McCauley et al., 2015, and Lavigne et al., 2014). This unintended redirection of funds towards emerging markets is best summarised by the president of the Dallas FED:

> 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.[133]

Emerging markets were more than happy to play again their traditional role of financial markets of 'last resort'; the difference is that this time the tsunami of hot-money flows to the higher-yields South was transforming their own financial markets beyond recognition —and domestic speculators were having as much a field day as international ones. "QE" was not only distorting the financial markets and the underlying performance of advanced economies, but was also doing the same in the South —but rentiers had never had it so good, with a billionaire being artificially created every 26 hours.[134]

According to the Bank for International Settlements (BIS) the seven trillion dollars of "QE" money that 'reverse-emigrated' to emerging markets helped lift overall credit provided overseas in dollars through bank loans and bonds to 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, more than two and half times that of ten years earlier —and this was not just a China phenomenon, as this debt had also grown by 61% in the other 15 countries.[136]

---

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

[133] https://www.dallasfed.org/news/speeches/fisher/2010/fs101007.cfm

[134] See Oxfam (2022). See also https://www.ft.com/content/ab30d301-351b-4387-b212-12fed904324b

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

[136] Avdjiev et al. (2020).

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%. In 2019 this overall debt had reached well over US200bn in Brazil and in Mexico, and about US$100bn in Chile.

Also during the 2020 pandemic, the IPO market in Brazil had its biggest year since the early Lula mania (2007).[137] And asset prices joined the fast-track. And in Chile, while GDP was down by 14% (second quarter), unemployment up at 3 million, and investment and domestic demand down by 20%, many asset prices were rising at record pace and mortgage rates had returned to pre-pandemic record lows. In the meantime, Chile's non-financial corporate debt, already the highest as a share of GDP among all emerging markets in the world (except for China), continued to grow as in best of times —but with little or no productive use of those funds to show for it at home.[138]

At least, there was a substantial increase of venture capital, "angel investors", and finance through banks available for start-ups —with the former being more sought-after as its members do not expect to be repaid until and unless the new company becomes profitable.

There were several routes by which "QE" did this '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[139] —and since instruments such as credit cards in rentier paradises like Brazil had reached an average interest rate of 240% p.a. (up to 490% p.a. at HSBC), returns were astronomical.[140] All this, of course, could only remain one-way bets so long as exchange rates in emerging markets and other 'automatic destabilisers' acquiesced.

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).[141]

Another irony is that even when those funds ended up creating new productive capacities, it also tended to be in the "wrong places". In Chile, for example, as its extractive model had long become exhausted (Palma, 2019b), and extra easy rents à-la low-hanging fruits were becoming scarce, a significant amount of the extra funds were used to finance all forms of capital flight, including shifting new productive capacities to neighbouring countries (i.e., the "wrong place" from the point of view of Chile's domestic economy), where there were still some easy rents niches available. So the assets emerged abroad while liabilities were kept at home as it was cheaper to raise funds from Chile —with policy-makers and the Central bank cheering it all on.

In Chile, once the purely extractive model had become exhausted domestic corporations faced a choice: take on the challenge of an upwards diversification of their extractive model via the industrialisation of commodities and the local production of inputs, or keep doing more of the same extractive activities but in neighbouring countries.[142] Almost

[137] 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?

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

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

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

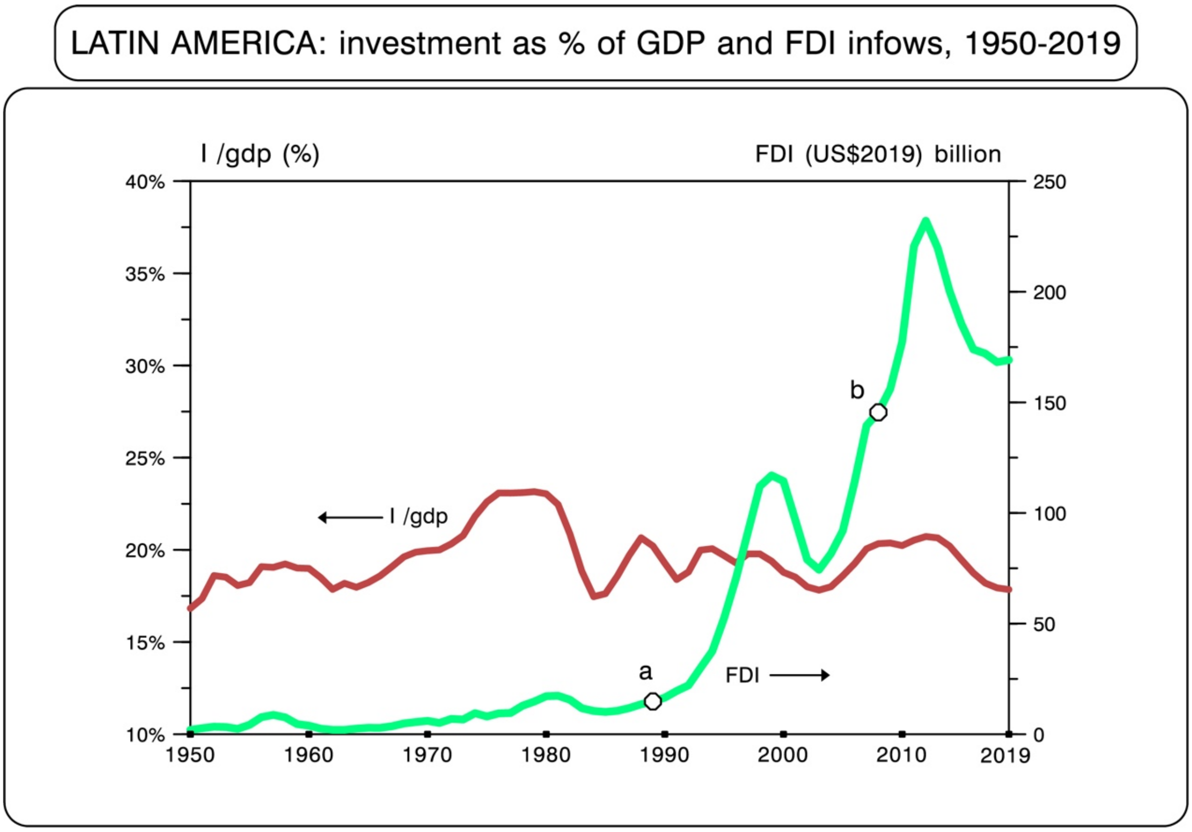
[141] Palma (2016).

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

unlimited access to cheap finance provided a unique opportunity to take on the challenge of the former; however, the "more of the same" easy extractive rents in neighbouring countries prevailed —as a key component of Chile's middle-income trap is what I have called its "neo-phobia", or fear of the new (better the devil you know…).[143]

Foreign direct investment (FDI) was another route for "QE" to find its way into emerging markets; with often up to half of it being just intra-company loans.[144] In Asia, as opposed to Latin America and South Africa, some of it did end up helping to increase productive capacities, but in Latin America the "QE"-related surge of FDI seems to be having little or no impact on overall investment. (Figure 10.)

FIGURE 10



● **a**=Brady Bonds and beginning of financial liberalisation; **b**=beginning of "QE"; **I/gdp**=investment as a share of GDP; and **FDI**=foreign direct investment.

● Source: ECLAC (2021).

Despite FDI inflows since the 1989 'Brady Bonds' of no less than US$ 3.6tn —US$ 2.2tn of which since the beginning of QE—, Latin America's investment rates have remained stuck at their low historical rates. Part of the problem, of course, is the nature of that FDI: researchers at the IMF and the University of Copenhagen have 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".[145]

In fact, even in 'FDI-intensive' Brazil and Mexico, investment per worker *has remained stagnant since the 1982 crisis* —that is, for 40 years! The same is true for

[143] https://www.ineteconomics.org/perspectives/blog/chiles-outburst-of-discontent

[144] Avdjiev et al. (2014).

[145] IMF (2019).

Argentina and almost all countries of the region.[146] Meanwhile, in emerging Asia, Korea increased its investment per worker 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!

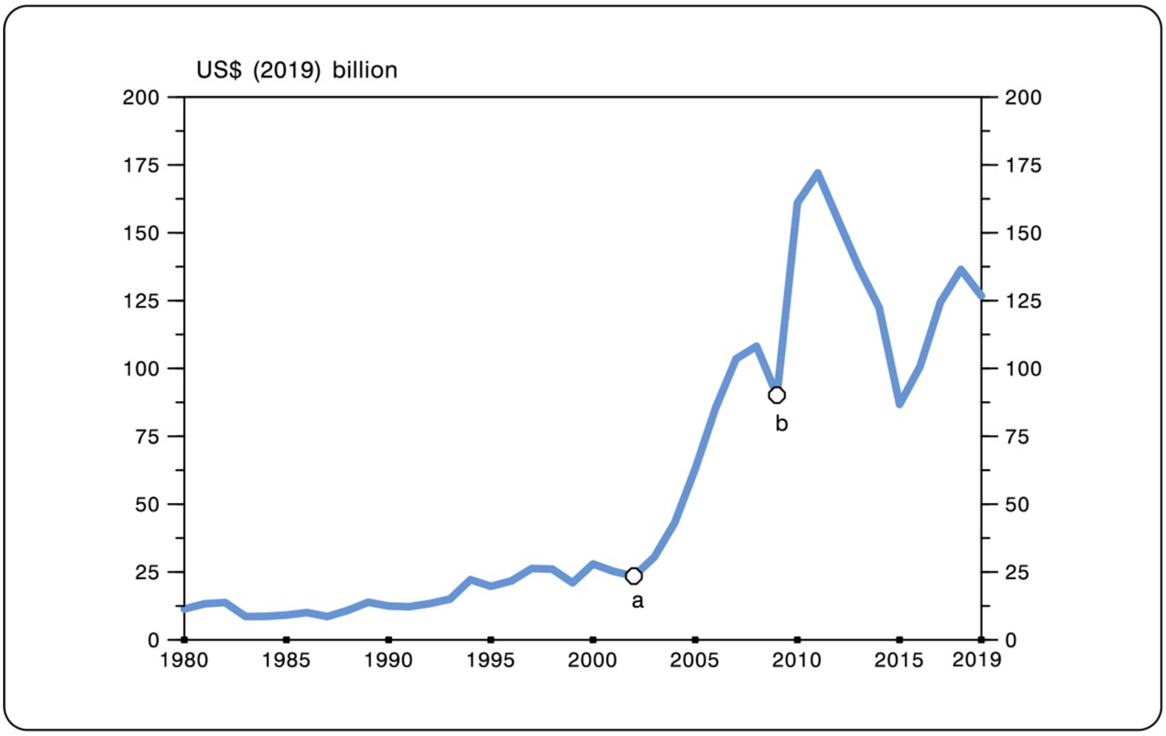
Thus, while in Latin America, investment has struggled to reach even 20% of GDP since the neo-liberal reforms —less than half China's levels—, its GDP-share of household consumption is currently twice that of China. Needless to say, both China and Latin America now urgently need to rebalance their growth,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

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 relative to its GDP).[147]

Even though these huge FDI inflows, as well as foreign bank loans and portfolio inflows, have had a negligible impact on investment rates, they did certainly have a major negative one on the current account of the balance of payments (Figure 11). 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.

FIGURE 11

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 (2021).

In the case of Chile, for example, during the 12-year period of the "super-cycle" of commodity prices, profit repatriation by FDI alone became larger than the stock of the entire

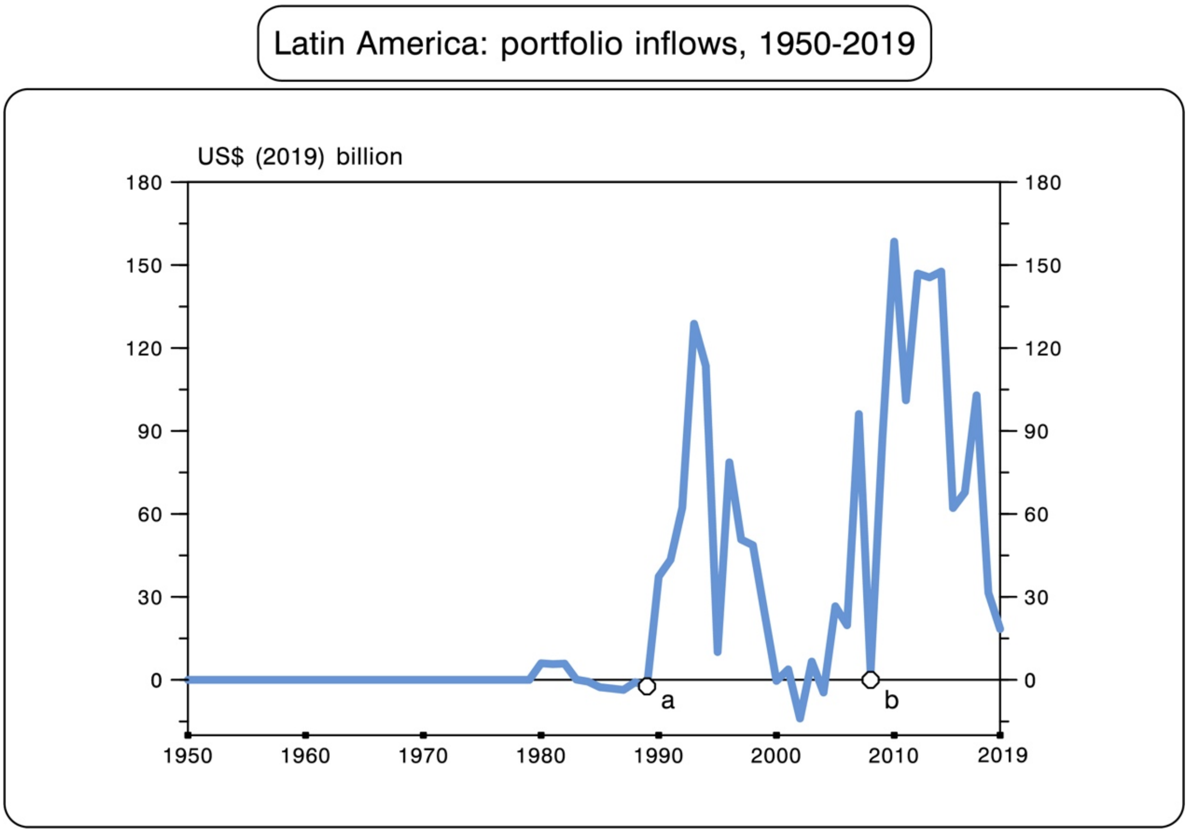
[146] Palma (2019b).

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

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, or “AFPs”) —about US$190bn versus about US$160bn, respectively.[148] In fact, in dollar of the same value, profit repatriation by FDI alone during this short period of time become larger than the entire cost of the Marshall Plan! Lack of a proper royalty on natural resources is the main culprit of this farce.[149]

In turn, huge volatilities in portfolio inflows brought in a remarkable degree of macroeconomic instability and damaging uncertainty. (Figure 12.)

FIGURE 12



● **a**=Brady Bonds; and **b**=beginning of “QE”.

● Source: ECLAC (2021).

These highly destabilising inflows into Latin America (their coefficient of variation was 0.86 per year) reached US$ 1.8tn between the beginning of the Brady bonds (1989) and 2019 —and over US$ 1tn since the beginning of “QE”. In Chile, at least its 1990s-style capital controls on portfolio inflows —those that can only be applied now if huge compensations are paid to disgruntled speculators due to its 2003 “trade” agreement with the US— helped to

---

148 Chile’s private pension system promised 70% income replacement, but as the *New York Times* reports, 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 2018, half of those who retired in this private pension system 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).

149 The current (so-called) royalty on copper mining is just a joke (https://www.ciperchile.cl/2021/09/08/el-royalty-como-eje-de-una-nueva-estrategia-productiva/#_ftn9).

control their volume and significantly reduced their volatility during the seven years in which they were implemented.[150]

In sum, emerging markets as a whole already owe a total of US$ 71tn;[151] and their non-financial corporate debt (at nearly 100% of GDP) is greater than 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 "super-cycle" 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 (towards the end of the commodities' "super-cycle") —with consumption of durable goods more than doubling in just 7 years, and household debt increasing from 28% to 40% of GDP.[152] In such a scenario, a consumption binge can easily be mistaken for prosperity.

According to the IIF, pre-pandemic overall emerging market debt reached 220% of GDP —and in mature economies, debt-to-GDP reached 380%, with global debt soaring to a record high of US$ 258tn at the end of 2019.[153] From this perspective, the paradox is that "QE" was designed to help reduce systemic risks in mature economies; however, the US$25tr of "QE" funds injected since then has enable the build-up of a huge debt-bubble in them and in emerging markets via cross-border lending and 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 major corporate dollar-debt crisis due to the former, and/or a large domestic banking one to the latter.

In actual fact, we should not expect a proper 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 after the crash:

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

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.[154]

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".[155]

Conclusions

Samuelson wrote on the front page of the fourth edition of Kindleberger's 2005 book (the one that had the message 'avoid manias like the plague') "Sometime in the next [few] years you may kick yourself for not reading and re-reading Kindleberger's *Manias, Panics and Crashes*". Little did he know how right he would be!

In an excess liquidity environment —let alone in one with credible assurances of the 'whatever it takes-type' that speculators in distress will always be saved— discerning agents (North and South of the equator) will inevitably be in very short supply as everyone would have the incentive to join what the *FT* has called the "everything rally".[156]

Perhaps what has been going on in financial markets of advanced and emerging markets alike since the 1980s, something that has been even intensified since 2008 and even further during the pandemic, is best summarised by the first editor-in-chief of The Economist in 1865

[150] Palma (2016).
[151] https://www.ft.com/content/f7157356-e773-47c4-b05d-8624a5ccfd03
[152] Banco Central de Chile (2021).
[153] IIF (2020).
[154] Palma (2009b).
[155] On hitherto unsailed seas.
[156] https://www.ft.com/content/2895520f-5d23-4add-a431-7cc954fb78a4

> A great deal has been written and is being written on panics and manias … but one thing seems certain, that at particular times a great many stupid people have a great deal of stupid money.[157]

Newton's fuming remarks at the time of the South Sea Bubble, in which he lost nearly 5 million dollars in today's money, is also revealing:

> "I can [understand and] calculate the motions of the heavenly bodies, but not the madness of [the South Sea Bubble] people".[158]

In turn, the impact of this on the real economy of advanced and emerging markets alike can best be summarised by paraphrasing Oscar Wilde: thanks to the "new alchemists", financial markets can offer such levels of returns that anyone who now wants to make money doing something socially useful must be suffering from a lack of imagination.

Globalised financial markets have gone off course in such a way, and this has had such a negative impact on the real economy, that one now even is tempted to reminisce times of 'financial repression', as well as of Keynes's key policy recommendation in this area: "Let finance by primarily national".[159] Minsky (1986) was surely right when he stated that "a capitalist economy is inherently flawed because its investment and financing processes introduce endogenous destabilising forces". Paraphrasing a *FT* columnist, what financial 'liberalisation' and excess liquidity have really achieved —particularly due to the way in which they have been implemented— is to transform financial markets in the advanced and emerging worlds alike into a —it's-not-meant-to-make-sense— "gigantic global joke".

It is indeed such a joke that a Goldman Sachs' CEO could proclaim with a straight face that he was doing God's work on earth. Or that in the US, and mostly thanks to this financial joke, the average *annual income* of the top 0.01% could increase since the election of Reagan by US$ 27 million (and the top 0.1% by nearly 6 million), while that of the bottom 50% (125 million people) could only do so by less than US$ 3 thousand (all figure in dollars of 2021). One would need a lot of story-telling (especially by those who Minsky calls the financial markets' 'courtiers') to get away with that! Or to justify that the best way to save the world from the most frightening pandemic in a century was to help the richest ten individuals in the world make US$1.3 billion a day for 20 consecutive months.[160] That group of Native Americans were surely rightly when they said that "those who are good at storytelling will dominate the world".

As Kahneman (2011) argues (see above), when questions become too difficult people just replace them with others which are easy to answer —and in economics, those answers are often made of story-lines embellishing whatever does not fit in standard models. No wonder that economic theory, especially (although not only) of the mainstream type, was unable to take on board what was really happening in the world of finance since the beginning of the neo-liberal reforms —like those events mentioned in the introduction.

And as Freud explained, if you want to live in a world of illusions, don't complain if now and again they come into collision with some portion of reality, and are shattered against it.

In the world of finance, emerging Asia seems to have been the exception in terms of keeping their feet on the ground, and using most of the easy access to cheap finance for productive purposes; however, as the 1997 crash attests, it was unlikely that they would manage to keep immune. In fact, as Palma and Pincus (2022) analyse, some of their middle-income countries (like Malaysia, Indonesia and Thailand) have never really recovered from

[157] Walter Bagehot, quoted in https://www.businessinsider.com/stupid-money-2012-9?r=US&IR=T

[158] https://www.businessinsider.com/isaac-newton-and-the-south-sea-bubble-2013-4?r=US&IR=T

[159] Keynes (1933).

[160] https://www.oxfam.org/en/press-releases/ten-richest-men-double-their-fortunes-pandemic-while-incomes-99-percent-humanity.

that crash. Even China, with its remarkable success in 'disciplining' finance to the logic of its real economy, seems to be living now its own 'slow-motion' financial crisis.

And to try to make sense of all this in terms of what has been happening in financialised emerging markets by imposing into this 'it's-not-meant-to-make-sense' financialised scene a logic of 'nations trapped in a hierarchical world economy that coerces them to integrate into the world's financial market' misses the key point: few have put so much effort to achieve full financial deregulation and full integration into this kind of international financial markets, and few have done so well out of it, and few have gained as much (at least in relative terms) politically and economically out of the FED's, the Japanese and the European Central Banks' "QE" as the by now internationalised business elites of financialised emerging markets.[161] And few real economies have suffered as much from the consequences of this "gigantic global joke", as those of financialised emerging markets.

This is not to say that many governments of developed countries, and especially their large corporations —as well as their domestic allies in emerging markets—, don't want to have emerging countries as much 'in line' as possible. As analysed in detail in Appendix 2, for example, they have developed a new generation of 'weapons' for this in the form of a new type of "trade" treaty —in which the trade component is just a bait for emerging markets to accept new forms of *absolute* corporate protection. These have proved particularly effective in narrowing down the policy space in which governments of emerging countries can operate. But, as discussed in the appendix, not all emerging countries acquiesce.

But many do, and some have for example liberalised their domestic finance to such an extent that for some players of international finance they have become their 'Guantánamo Bay': a place where they can do abroad what they cannot do back home. It is precisely this diversity within this financialised unity —including the type of domestic political and economic elite with which they have been saddled— that characterises the historical processes of emerging countries.

And in terms of what I labelled above as the "new alchemists'" adaptation of Archimedes' principle (i.e., the new odd 'connect' between 'Wall Street and Main Street' at times of financial distress), as one insider (quoted above) remarks, the challenge in today's financial markets has changed from guessing *the direction* of the market's next move, to just trying "*to time* the market's next move".

Perhaps (just perhaps), it is finally becoming 'common sense' (in the Gramscian perspective)[162], that the ever-increasing financialisation that has characterised the global financial landscape in the North and South since Reagan and Thatcher has been an entirely self-constructed distortion of finance. And a distributional one too, 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".[163] Rationality has surely been stretched thin in all kinds of ways these days…

The political dilemma is what to do next in a world run by a seemingly 'too-big-to-be-challenged' elite —particularly since our collective social imagination has seldom been so sterile.[164] As we know, when the 'new-left' had to face this dilemma, complete lack of new ideas led them to give up its apparent progressive nationalist development agendas, to throw-in the towel and decide that the only way to survive in a world run by these type of untouchable agents was to keep them sweet —as opposed to what emerging Asia's governments did during their golden age: to keep them 'on their toes'. This brings to mind Foucault's (2004) proposition that neo-liberalism is not really a set of economic policies but a new, and highly effective, *technology of power*.[165]

---

[161] At one point, the Sao Paulo financial market was actually paying higher salaries than Wall Street…
[162] Gramsci (1987).
[163] https://www.ft.com/content/0048beea-766e-11e6-bf48-b372cdb1043a.
[164] Palma (2009b).
[165] See also Palma (2016a).

Chile’s social explosion at the end of 2019, however, sounded like someone blurting out again that the financialised Emperor has no clothes. But so far (as in the fairy tale), the Emperor, although startled, has continued the procession, walking more proudly than ever; and Chile’s new politically progressive young élite is already behaving as if wondering whether the weavers had actually dressed the Emperor with a magical suit.

As I discuss in detail in a paper written during Chile’s social explosion at the end of 2019, perhaps its oligarchic rule will prove again to be something resembling what in statistics we call a ‘stationary process’: one in which the unbalancing impact of shocks (such as the return to democracy in 1990, or the social explosion in 2019) only have a limited life-spans. That is, no matter what the rest of society throws at it, the oligarch’s ‘jogo de cintura’ (fancy footwork) have been up to the task.

Financialisation, particularly in emerging countries, reminds of Theodore Roosevelt’s (1913) statement: “Of all forms of tyranny, the most vulgar is the tyranny of mere wealth, the tyranny of a plutocracy.” It also seems to be the least conducive to unleashing our social imagination, particularly in politics and economics.

Appendix 1. The Upheavals of January and February 2018

A1. - The “Up-and-down” Analysts

Paul Krugman once said that there were three types of economists, one of which was the “up-and-down” ones; those who not only analyse the daily comings and goings of the market, but also 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 January’s sudden mania, then on the (passing nature of the) panic, and finally concocted another for the renewed mania that followed.

A2. - The January 2018 Mania

Among the many “up-and-down” explanations of this sudden mania in January 2018, 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 their exuberance; and little it mattered that this plan was just “fake news” —as Congress (controlled by the President’s Party) *immediately* announced that they were only prepared to increase the infrastructure budget by US$21bn —i.e., 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.[166] As *Forbes* highlighted, “The GOP tax

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

plan scrooges middle class, retired and poor".[167] It would also inevitably add another US$1.5tr to the deficit; and according to *Fortune*, "Never in modern times have we seen tax cuts being implemented … with debt to GDP north of 100%".[168] Meanwhile, 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 JP Morgan's chief global strategist, "the bump to growth in 2018 will likely be a one-year wonder."[169]

But, for the "up-and-down" analysts, the late December 2017 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. Even Rand Paul voted in favour; in Trumpian times, dissidence is a luxury that few can afford…

The true nature of this tax reform became evident when a corporation immediately announced that their 2017 post-tax profits were now magically going to nearly double (from US$36bn to US$65bn).[170] Even the chief economics commentator at the *FT* called this tax cut "A Republican tax plan built for plutocrats".[171]

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".[172]

In the meantime, large technology companies would benefit mainly by "[R]epatriating …cash for equity buybacks".[173] 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.[174]

In turn, while the US was already falling back in the tech areas which are going to underpin the industrial internet and machine-to-machine communication that every company in every industry would depend on for growth in the following decade, Cisco Systems announced that it would spend on buying back its own shares more than three times what it would spend in investment.[175] In fact, a report by Morgan Stanley indicated that in the 550 corporations it studied, private investment was hardly mentioned in their 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 in the global race to 5G;[176] and was challenging the US for artificial intelligence dominance.[177] It already had

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

168 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/.

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

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

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

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

173 Ibid.

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

175 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.

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

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

more ‘super-computers’ than the US.[178] 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. Meanwhile, Christine Lagarde proclaimed in January at Davos (in the World Economic Forum) that she was “consigning the troubles of the past decade to history”.[179] And other reports spoke of a cyclical growth-path permeating *all corners of the world* —including (would you believe!) Latin America![180]

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 (or rather, of himself), “the stock market was smashing one record after another”; and (incorrectly) that it was up “almost 50% up since my election”.[181]

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”.[182] Difficult to remember a Davos in such an ebullient mood. Even that infamous 100-year Argentinean bond was trading well above its face value![183]

Just a few days later, while some self-satisfied guests were still skiing at Davos, all this exhilaration morphed into a sudden panic: as mentioned above, on Monday February 5th the Dow Jones suffered its worst fall in absolute terms in its history, with the index plummeting by more than 1,500 points in just a few minutes! And 2 trillion dollars worth of US stocks suddenly vanished. 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$5tr in value; and records kept being broken, one after another.[184]

A3. - The Panic of the First Week of February: surely it must be 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. Just 0.2 percentage points!

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.[185]

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

---

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

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

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

181 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/).

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

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

184 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 in a week —the most on record” (https://www.ft.com/content/9ceb6136-0d66-11e8-839d-41ca06376bf2).

185 https://www.oxfordeconomics.com/my-oxford/publications/432844

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.[186]

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.[187] But the "up-and-down" analysts needed to find a culprit for the stock-market collapse, and what better than wage-led 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![188]

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 spot on at "expected" levels. So, everyone could now happily enjoy the 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 individual speculators to enter and exit markets en masse in a way not possible in the past. In fact, part of Tesla's market capitalisation success is due its stock becoming a "faith-based" one among armchair amateur speculators enjoying online trading during pandemic lockdowns. And the rapidly growing concentration in share ownership and market concentration in finance did not help either —smaller fund managers trade against each other, helping to cancel out their impact, while large institutions tend to trade massively in just one direction. This is particularly the case when these large institutions use automated trading; since automated strategies typically use artificial intelligence programs to analyse and react to market momentum, rather than economic fundamentals per se, this tends to exacerbate a herding effect, and this could case wild volatility —especially in markets such as energy, where currently about 80% of trades are being executed by automated inputs. This is where "irrational exuberance" meets "robo-herding".[189]

A4. - 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".[190] And for one of the most influential financial reports, the severe share fall was just "a mean reversion in global growth" —although this "may be happening earlier than expected by the models".[191] In turn, a well-known "up-and-down" analyst stated that this 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

---

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

[187] See, for example, https://www.ft.com/content/46caa598-2d8f-4cce-a8c0-29c2a6d92e2d

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

[189] See https://www.ft.com/content/6e24689d-679f-4b45-ac73-dc1ace2ff69e; and 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

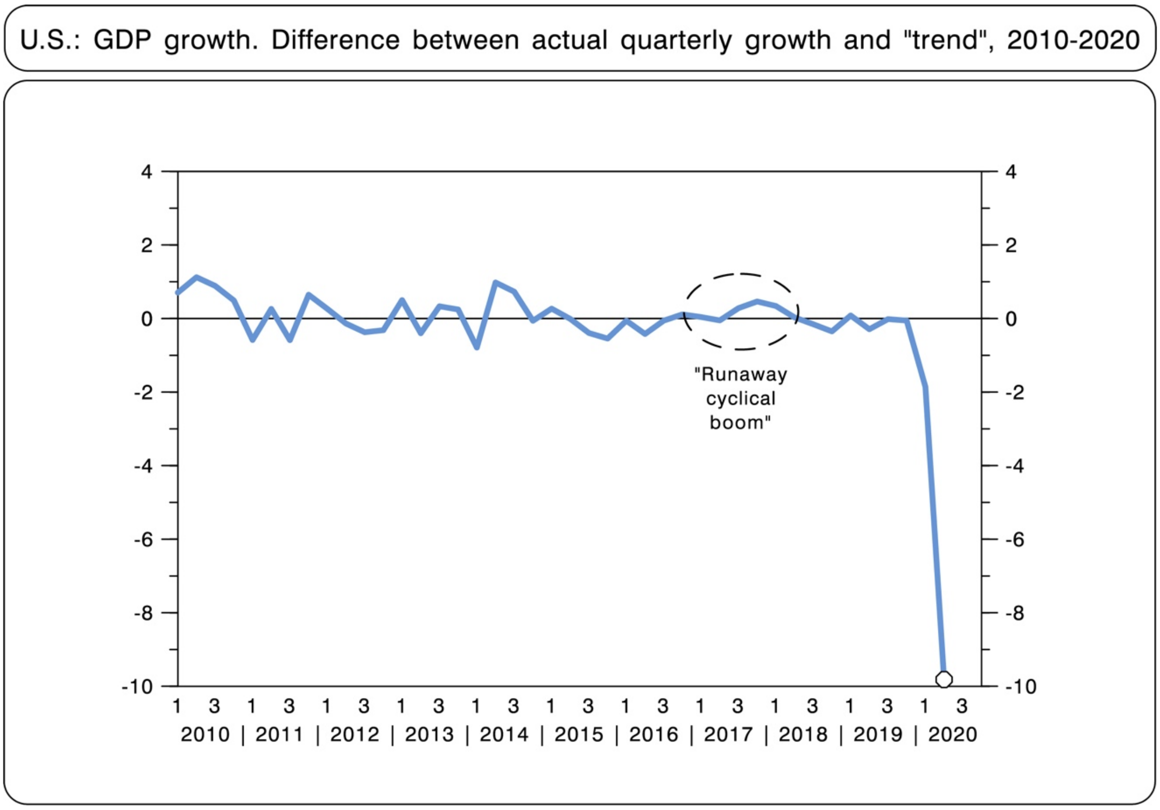
[190] https://www.federalreserve.gov/newsevents/testimony/powell20180226a.htm

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

“beautiful normalisation” of unconventional measures”.[192] And according to a report just quoted, “the strong global expansion in real output was the dominant driver of recent huge financial asset returns”.[193]

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”.[194] Runaway cyclical boom? What boom? (Figure A1).

FIGURE A1



- Trend=average growth of previous 8 quarters.
- Source: BEA Data (2021).

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 them and “trend” growth to just 0.28% and 0.46%, respectively. How anyone, let alone a senior 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 really 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”.[195]

The renewed mania that followed was such that “One seasoned fundraiser described the mood … as ‘frenzied’,”[196] even though “…dealmakers were already experiencing a degree of the emperor’s new clothes”.[197] And “[Citi] seem to have forgotten the time when

[192] https://www.ft.com/content/1f317854-0760-11e8-9650-9c0ad2d7c5b5
[193] https://www.fulcrumasset.com/latest-research/
[194] https://www.ft.com/content/2edbbd76-1e37-11e8-aaca-4574d7dabfb6
[195] Ibid.
[196] https://www.ft.com/content/0a1067b0-1c9f-11e8-aaca-4574d7dabfb6
[197] Ibid.

they were a buck a share".[198] 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".

APPENDIX 2. Why financialised agents at home and abroad are now aiming at reducing the 'policy space' in emerging countries

One by-product of the perpetual mania in international financial markets is that emerging markets have become what I have labelled a "financial market of last resort" (Palma 2012) —as excess liquidity lowers yields in advanced countries, financialisation has pushed international speculators into a yield-chasing frenzy in them.[199] In turn, commodities have also been transformed into "the financial asset of last resort", as in the event of another financial a crash many traditional financial assets might not be worth the paper in which they are written; commodities, instead, have intrinsic value and this makes them a solid (and relatively liquid) asset, which can withstand almost anything that financial markets might throw at them. That is, due to the shortages of minimally solid financial assets in which to park excess liquidity, in financialised environments speculators tend to seek refuge in commodities; this in turn can lead to artificial commodity price-bonanzas, such as that of the post-9/11 "super-cycle", as well as the one set in motion by sloppy pandemic-monetary policy.

These new cycles may have delivered a large amount of additional resources to commodity-exporters, but at the same time they have brought to them high volatility in export revenues, as commodity prices have now joined the new trend in over-liquid international finance: high asset-price volatility coupled with an ever greater correlation of returns.

Technological change has also added to the intrinsic value of many commodities as, for example, green-technologies use some of them intensively; this is the case of copper in the new cleaner and more sustainable forms of producing and distributing energy.

As higher-yield emerging markets have become an attractive market of last resort since "QE", an increasing number of emerging markets in Asia and Latin America (also South Africa) no longer have to put up with international finance being a "sellers'" market, where they had to knock and beg; financialisation has transformed international finance into a "buyers'" market for emerging economies.

Just one example of the impact of this bull market insanity on emerging markets was the Argentinean 100-year bond: shortly before the February 2018 debacle (see below), 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, with Thomson Reuters reporting orders from yield-hungry speculators equivalent to three times its value.[200] Remarkably, they were lending for 100 years to a serial defaulter that required these funds

---

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

[199] At the time of writing, Germany's negative yielding government bonds already exceeded the value of all the euro notes in circulation; and by the end of 2021, all EU government bonds offered negative real rates of interest —even Greek ones, a hopeless economy whose government debt to GDP ratio exceeded 200%!

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

mostly to subsidise capital flight. Not surprisingly, just two years later the implied probability of default on this 100-year bond was 85%.[201]

The key point here is that as emerging markets now play such an essential component of international finance, a powerful financial lobby has been pushing for more "protection" in the form of a reinforcement of the structure of property rights beyond anything seeing before. Thus, for example, in the pioneer trade agreement between Chile and the US signed in 2003, Wall Street made sure that Chile would agree not to implement again their highly successful capital controls followed during the 1990s —even though there is no logic whatsoever in including clauses restricting capital controls in a so-called "trade" agreement. This would be a good example of what Jagdish Bhagwati, the greatest free-trader in the Washington Consensus, has called "the spaghetti bowl effect".[202]

Furthermore, at exactly the same time (2003) even Kenneth Rogoff, then the Chief economists of the International Monetary Fund (IMF), was among several mainstream economists praising Chile's 1990s experiment with capital controls.[203] Later on, the IMF returned to the issue emphasising that 1990s Chile-style capital controls could be an important instrument of macro-prudential policy.[204] However, if Chile were to implement again those highly needed and praised 1990s capital controls, its 2003 "trade" agreement with the US implies that now they would be forced to compensate any armchair speculator that may feel upset.

For Stiglitz, this "trade" treaty:

> [B]roke new ground [but] in the wrong direction. Special interests in industrial countries … took precedence … Particularly ironic was the provision designed to restrict Chile's use of capital controls for short-term speculative capital flows. Chile used these measures efficiently and effectively during the first part of the 1990s.[205]

Furthermore, Wall Street was still not satisfied with these bilateral agreements, and led the negotiation of a new multilateral "trade" treaty that would go much further in this: the new Transpacific Partnership Treaty (or TPP — later called with a García-Márquean name of "Progressive": "The Comprehensive and 'Progressive' Agreement for Trans-Pacific Partnership, or CPTPP). In this treaty the trade component became just the bait for emerging markets to accept new forms of *absolute* corporate protection. For example, it introduced a new "Buchanan-inspired" concept of "indirect expropriation": *if any policy or regulatory change* were to affect the profitability of a multinational (or an 'internationalised' domestic corporation) in any way —no matter how rational, efficient, necessary or democratic these changes may be—, conglomerates will have the right to compensation.[206] That is, now corporations have a new-type of corporate "property right": on top of the existing ones on their tangible and intellectual assets, now they have one on their current levels of profitability! Adam Smith must be spinning in his grave…

Also, and not surprisingly, we now know that the US had a draft of the key chapters of this treaty (e.g., the one on intellectual property rights) ready before the negotiations even began —something the Chilean bureaucrats involved in the negotiation had denied…[207]

---

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

[202] https://academiccommons.columbia.edu/doi/10.7916/D8CN7BFM

[203] https://www.imf.org/en/News/Articles/2015/09/28/04/54/vc021003

[204] https://www.imf.org/external/np/pp/eng/2012/111412.pdf. see also

[205] https://www8.gsb.columbia.edu/faculty/jstiglitz/sites/jstiglitz/files/Fair_Play.pdf

[206] For Buchanan (1993), big corporations are the ones that really need "social protection". He saw society in a paranoid way: 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 —even enshrined in their Constitutions. Now, they are also protected via 'trade' treaties.

[207] https://www.ciperchile.cl/2021/01/26/todo-lo-que-siempre-quiso-saber-sobre-el-tpp-11-pero-nunca-

Needless to say, this kind of treaty completely narrows down the policy space in which government officials can operate, something that contradicts even the neo-classical approach to policy-making: the Lipsey and Lancaster's (1957) theorem of the second best. According to this general theorem, even from a neo-classical perspective *pragmatism* is what should rule in policy-making —and for this what is needed most in order to deal with market failures and distortions is precisely 'policy space' to be able to redesign policy accordingly. But when big domestic and international agents become "rule makers", special interests trump reason and productive efficiency, transforming markets into an institution unable to allocate resources in an efficient manner.

Furthermore, these new "trade" treaties take away the formal resolution of this new type of conflict between corporations and the State from professional domestic courts, and pushes them into a new kangaroo-type international court —where lawyers appointed by the same multinationals involved in the conflicts have the right to arbitrate because they become both judge and jury in them.

No wonder that Stiglitz has called this "trade" treaty a "free-trade charade".[208]

Bibliography

Alami, I, C Alves, B Bonizzi, A Kaltenbrunner, K Koddenbrock, I Kvangraven, and J Powell (2021), 'International Financial Subordination: A Critical Research Agenda', *Greenwich Papers in Political Economy*, GPERC85.

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

Arantes, P (2007) *Extinção*, Boitempo.

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 (2021), 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

Benjamin, W (1966), *Illuminations: Essays and Reflections*, Harcourt Brace Jovanovick.

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

---

se-atrevio-a-preguntar/. This treaty contains tough provisions on patents and trademarks, and on non-tariff or other trade barriers, government procurement, limits to the scope of state-owned enterprises, the opening of domestic financial markets, and the above mentioned compensation to multinationals in case any policy or regulatory change affected their profitability —no matter how reasonable and democratic the change might be.

[208] https://www.project-syndicate.org/commentary/transatlantic-and-transpacific-free-trade-trouble-by-joseph-e--stiglitz. On the TPP treaty, see Palma https://www.ciperchile.cl/2019/03/26/el-tpp-11-y-sus-siete-mentiras-de-democracia-protegida-a-corporaciones-protegidas/; and https://www.ciperchile.cl/2021/01/26/todo-lo-que-siempre-quiso-saber-sobre-el-tpp-11-pero-nunca-se-atrevio-a-preguntar/

Britton, R (2002), ‘Fundamentalism and Idolatry’, in C Covington et al. (ed.) *Terrorism and War*, Karnac.

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

Cardoso, FH and E Faletto (1977). Dependency and Development in Latin America, University of California Press.

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.

Chang, HJ and CG Yoo (2020), ‘The Triumph of the Rentiers?, *Challenge* 43(1).

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

Conference Board (2021), *Total Economy Database*, https://www.conference-board.org/data/economydatabase/

Díaz Alejandro, C (1984), ‘Latin American Debt: I Don’t Think We are in Kansas Anymore’, https://www.brookings.edu/bpea-articles/latin-american-debt-i-dont-think-we-are-in-kansas-anymore/

ECLAC (2021), Statistics and Indicators, https://estadisticas.cepal.org/cepalstat/WEB_CEPALSTAT/estadisticasIndicadores.asp?idioma=i

ECI (2021), ‘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/

Fama, E. (1970), ‘Efficient capital markets: A review of theory and empirical work’, in *The Journal of Finance*, 25(2), pp. 383-417.

FED (2021), *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

Foucault, M (2004), *Naissance de la Biopolitique: Cours au Collège de France, 1978–1979*, Gallimard Seuil.

Forbes, (2021), Forbes World’s billionaire list, https://www.forbes.com/billionaires/

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 (2021), *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

Daniel Kahneman (2011), *Thinking, Fast and Slow*, Farrar, Straus and Giroux.

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

North, D, JJ Wallis, SB Webb, and BR Weingast (2007), ‘Limited Access Orders in the Developing World’, http://econweb.umd.edu/~wallis/MyPapers/Limted_Access_Orders_in_the_Developing_WorldWPS4359.pdf

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

Oxfam (2022), ‘Inequality kills’, https://policy-practice.oxfam.org/resources/inequality-kills-the-unparalleled-action-needed-to-combat-unprecedented-inequal-621341/

Palma, JG (1978), 'Dependency: a formal theory of underdevelopment, or a methodology for the analysis of concrete situations of underdevelopment?' *World Development*, 6(7/8).

Palma, JG (2005), 'Four sources of de-industrialisation and a new concept of the Dutch Disease', in JA Ocampo (ed*.) Beyond Reforms: structural dynamic and macroeconomic vulnerability*, Stanford University Press and the World Bank, pp. 71-116, https://openknowledge.worldbank.org/bitstream/handle/10986/7378/344340PAPER0Be101official0use0only1.pdf?sequence=1&isAllowed=y.

Palma, JG (2009a), '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 (2009b), 'Why Did the Latin American Critical Tradition in the Social Sciences Become Practically Extinct?', in M Blyth (ed.), *The Handbook of International Political Economy*, Routledge, 2009.

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 (2016a), 'Why Latin America's critical thinking switched from one type of 'absolute certainties to another —with no (far more creative)'uncomfortable uncertainties' in sight', in J Ghosh, R Kattel and ES Reinert, *The Handbook of Alternative Theories of Economic Development*, Elgar, http://www.econ.cam.ac.uk/research-files/repec/cam/pdf/cwpe1416.pdf

Palma, JG (2016b), '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*, 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*, http://www.econ.cam.ac.uk/research-files/repec/cam/pdf/cwpe1991.pdf

Palma, JG (2019c), 'Desindustrialización, Desindustrialización prematura y Síndrome Holandés, in *El Trimestre Económico*, 86(334), http://www.eltrimestreeconomico.com.mx/index.php/te/article/view/970/1075

Palma, JG (2020a), América Latina en su "Momento Gramsciano". Las limitaciones de una salida tipo "nueva socialdemocracia europea" a este impasse', *Trimestre Económico*, LXXXVII(348), https://eltrimestreeconomico.com.mx/index.php/te/article/view/1146

Palma, JG (2020b), Why the rich always stay rich (no matter what, no matter the cost), *CEPAL Review* No.132, https://www.econ.cam.ac.uk/research-files/repec/cam/pdf/cwpe20124.pdf. for a version in Spanish, https://repositorio.cepal.org/bitstream/handle/11362/46826/RVE132_Palma.pdf?sequence=1&isAllowed=y

Palma, JG (2022a), 'How to create a financial crisis by trying to avoid one: the Brazilian 1999-financial collapse', forthcoming, *Brazilian Journal of Political Economy*, forthcoming. A previous version can be found in http://www.econ.cam.ac.uk/research/repec/cam/pdf/cwpe1301.pdf

Palma, JG and J Pincus (2022), 'Is Southeast Asia failing into a Latin American-style Middle-income trap?', in S Waglé and K Wignaraja (eds.), *The Great Upheaval*. Cambridge University Press.

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.

Reinhart, C and KS Rogoff (2011), *This Time Is Different: Eight Centuries of Financial Folly*, Princeton University Press.

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.

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 (2021), *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 (2021), *The Standardized World Income Inequality Database*, https://fsolt.org/swiid/

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

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

WDI (2021), *World Development Indicators*, https://databank.worldbank.org/source/world-development-indicators

WEO (2021), *World Economic Outlook Database*, www.imf.org/external/pubs/ft/weo/2018/01/weodata/index.aspx

WID (2021), *World Inequality Database*, https://wid.world/