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Too-big-to-fail și societatea capitalistă contemporană

-summary-

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At the beginning of this research, while stating its purpose, namely the testing of the hypothesis that the existence of crises does not necessarily depend on the nature of capitalism, and public policies play an important role in their emergence, we observed that carrying out the task we have proposed involved a serious effort to collect, analyze and interpret important data regarding capitalism. As the hypothesis of the study referred to what capitalism is about beyond the array of its forms in time and space, this basic core could be discovered and studied only by going through this array of manifestations. For someone familiar with the subject, it is enough to think, for example, of the many volumes of Markham's *Financial History of the United States* to understand that since a single sector of the economy, finances, and a single geographical area, the United States, call for such an effort and such a size of the study, the claim made by us of testing the hypothesis and achieving the final objective, the purpose of this study, could not be achieved in an extensive manner. It was necessary a stylization of the protean reality of capitalism; this stylization could not be made on the basis of a single criterion, for example the typological one, for two reasons: the impressive variety of typologies (each with its types), respectively the insufficient restriction of the field to be investigated on the basis of these typologies (in other words, each type of each typology would have required a very large investigation). Other criteria were needed to select the field of investigation.

The second such criterion belonged to the very common essence of capitalism, logically anterior to its diversification, the fact that, in any of the forms it takes, there is no capitalism without the sustained attempt to obtain profit. However, things did not simplify much because we found this concern in all the types of capitalism we would have been willing to investigate.

The third criterion, closely related to profit, was that, although the essence of capitalism is economic, and the market is determinant, we can only talk about capitalism when the economic sphere not only determines, but even gives shape to the social and political spheres. Thus, we knew that a typology should be formulated, that the search for profit and the way in which the economy determines the other societal elements should be studied. We had a reading grid, but the task was still impressive.

Then we introduced a final criterion, which has the merit of narrowing the scope of research to manipulable dimensions. It is the idea that the functioning of a whole, here a form of capitalism, can be better discerned in moments of crisis when the most sensitive of determinations, causes and effects can be observed.

So, we knew that we would produce a typology – an almost banalized one in order not to be accused of a parti pris – and for the contemporary phase of capitalism, the financial one (which comes after merchant and industrial capitalism), we also decided to follow a division into the most widespread varieties. Thus, we were able to recompose and follow capitalism's diverse history of centuries, looking at the specific way of obtaining profits in each of the three types of capitalism, and also what is specific to each of them in terms of how the economy had determined the social and the political spheres. In order to do this, we have studied, according to the last criterion, the most important crises of the three major types of capitalism, trying to test the hypothesis and observe whether the crises analyzed are strictly related to the nature of the free market or if, at least to a certain point, they were driven by public policies. In the last two chapters of this study we made this analysis for the financial type of capitalism on the basis of the recent crisis, showing that the axiological and attitudinal inconsistencies of the main political and economic actors – materialized in a deregulation policy followed by bail-out when the crisis struck– are responsible both for the genesis of the crisis and, especially, for stopping the beneficial and educative action of the market that sanctions excessive speculation and risk. By doing so, these actors, on the one hand, shifted the risk in the future, and, on the other hand, shifted it to other individuals and societies than those responsible for the crisis.

This is, in short, the internal logic of the research; based on it, it was possible to order and rationalize the complex geometric body that is capitalism. It is easy to see, when reading this analysis of capitalism's logical structure, that one of the fundamental assumptions is that of the determinant function of the economy over the whole functional ensemble of society. This aspect has just been stressed as a criterion for the interpretation of capitalism; in addition, both the criterion of the economic crisis and that of the typology of capitalism according to the activity in which most profit is generated, namely the search for profit itself, fully reflect this prominence of the economy; the very varieties of financial capitalism are primarily established as functions of the economy, of its way of working. It is normal to be so. We wanted a rational reading of capitalism and we sat down on a point of view that is generally embraced by economists, not just by those in the Marxist tradition. In fact, when Adam Smith says that we obtain our food not from the benevolence, but from the interest of the baker and the grocer, he says nothing else but that the social fabric depends fundamentally on economic realities. Things are as such, and we have the consciousness of our position, we even expressed it as such. But it's not the only possible position. In open opposition to Marx, Max Weber puts the genesis of capitalism in a relation of dependence with the Protestant ethic; this is one of the most known competing positions; is not the only one. For the moment, however, we will make some concluding considerations, this time of an interpretative nature, about the research results and the perspectives they offer.

However, firstly some observations should be made about the typology embraced. As we have seen, we have mentioned many other typologies proposed and used by economists, sociologists, etc. for capitalism. One of the greatest risks when using concepts, symbols, widespread theories is to consider them banal. Another risk is to assign them to a person who used them or who proposed something similar; in our case the typological classification of capitalism in merchant, industrial and financial can appear on the one hand as a commonplace, and, on the other hand, even worse, as a Marxist idea[1] – we ourselves made a brief history of this typology.

Things are simpler and more important than that. Firstly: it does not matter if something has become commonplace; in a research we are looking for the truth, not for the surprise, and the fact that something has become commonplace is rather proof of its truth. And, and this is much more important, no matter who the fake friend is – here Marx – we have used this typology according to one of the criteria of this research, the economic sector in which most profits were made. Marx is interested in a process of genesis and evolution. In this paper, we see how the most dynamic resources (people, capital, etc.) are distributed to an economic sector, even if others are present, and this happens because there is more profit to be made there. This is the reason why we adopted that typology[2]. As we already said, it worked as a first step in styling the facts analyzed in the research.

Once we have determined the historical types of capitalism, we have applied another stage of stylization, namely the study of at least one economic crisis for each type of capitalism, in accordance with the idea that we better understand a certain system, a certain form of capitalism, in its moments of fragility. By studying these moments, we were able to make some necessary clarifications.

[1] We should shed off the provincialism that confuses the Marxist utopia about communism with the Marxist analyses of capitalism; at the height of the recent crisis, many economists said that *Das Kapital* is a reference interpretation of capitalism.

[2] In the course of the paper we also showed that there are different manners to control the entry into the respective sector of activity. For example, Indian trade was the object of a Royal Charter. Examples can be given for any other economic sector. We have also shown that various financial regulation, in a less-obvious manner, play today an analogous role in entering the financial sector.

The first of these is the difference between a real and important crisis and a mere speculative mania; in the case of merchant capitalism we have clearly seen this distinction between the profound crisis induced in France by John Law's Scheme and the Tulipmania created by the market in the Netherlands. In the first case, we are in the presence of a process on a major scale that is rightly a crisis. In the second case, we are dealing with a speculation that had not reached the major structures of the economy.

The second clarification also comes from this difference. The speculative rise in the price of tulips did not entail a crisis, but it is remarkable that, with the exception of a few short interventions of the Dutch cities regarding prices at the end of the crisis, there were no state interventions, no public policies, although sometimes they were requested. In contrast, in France, which was in a less developed phase of capitalism than England or the Netherlands – which should have limited the effects of a speculative crisis[3] – the adoption of John Law's ideas, i.e. massive public policies of a speculative nature, has accentuated and aggravated the situation, taking it beyond the simple level of fiscal policies, to the scale of the entire economy and societies.

The third clarification we have made on the basis of the same crisis – and also on that of the crises of 1929-1933 and 2007-2010 – is of utmost importance for this research, namely that a crisis (as opposed to a mania, of a speculating bubble) creates major negative consequences on the economy, but also on society, politics, ideas and even the societal model. Thus, after the crisis of 1929-1933, the American societal model migrated a lot to the Left. During the recent crisis, there was a short trend in the same direction, followed even in these years by a counterbalance to the Right, towards protectionism and sovereignty.

The fourth clarification obtained from the second chapter, due to the crisis of 1929-1933, is that the more market-oriented economies, especially the American one, had recovered with more difficulty than, for example, the German one, because they did not even have the necessary institutions to intervene. Although this clarification seems to contradict our assumption that public policies are rather aggravating factors of crisis, and in the long run they encourage the crises to repeat, things are not like this. First, we are not against public policies, we are for coherence, we claim that, when the actions are incoherent, the worsening of the situation occurs. Secondly, those who carefully read the text of this research can see that the

[3] In fact, as we have seen, in France we were dealing only with a public debt due to feudal rather than capitalist practices, which the state believed could be paid by using capitalist speculative measures.

entire period from 1913 to the end of the Second World War represents a long depression, with an acute period between 1929-1933. In our argumentation we deal with one of those rare situations in which the economy itself produces fragility – here explained precisely by the transition from the industrial type of capitalism to the financial one – which can generate a crisis. At the same time, besides the Keynesian position that encouraged public policies of intervention on aggregate demand, there was a concurrent position, that of Irving Fisher, which was not adopted but which – based on the functioning of the market without intervention – could have led to a healthier economy and, anyway, it would have been more consistent with the American previous pro-market attitude. This fourth clarification therefore shows that there are inconsistencies between the attitudes of decision-makers at different times of economic evolution, before and after the crisis.

Finally, the fifth clarification brought by the second chapter – we have already found, as we will soon see, that this has been repeated in the recent economic and financial crisis – is that the economic and political actors had largely agreed before the crisis to support the market and, after the crisis had begun, to support interventionist public policies. In a way this attitude is normal because in the boom years everyone wants to win, and in crisis no one wants the economy and society to collapse. As it has been seen, our reasoning is for coherence, or at least for a better estimation of the effects of intervention or non-intervention, both before and after the crisis.

Although it is continuously repeated that history is the best teacher for the present and for the future, it is clear to each of us that the events we live in, in which we participate, impress and influence us much more. By doing so, it is already more difficult to study such realities that are under way or have recently ended. An additional difficulty of such a research comes from the fact that either the chain of phenomena has not ended, or its consequences are projected over a much longer period than the present of the research. Hence there is a difficulty. The information – and this can be divided in mainly two categories: data and specialists' interpretations – is particularly abundant, it even bombards you, and especially is not filtered by a period of time that would help one see which data is really relevant to the causes, developments, and, especially, to the consequences, which of the interpretations have a scientific character that breaks the barrier of the present, and which interpretations are just *ephemeals* – as Frunzetti once told Noica. In the third chapter, dedicated to the analysis of the economic and financial crisis of 2007-2010, we had to provide answers, i.e. choices for each of these issues.

Thus, we opted for a description of the recent crisis comparing the main economic parameters (GDP, unemployment, etc.) from the pre-crisis phase, during and after the crisis. These parameters did not pose a problem of selection, being the ones that are essential in any statistics. They helped us look for the causes of the crisis primarily at the level of economic fundamentals, and, when they did not provide all the answers, we sought answers at the level of public policies, but also in the behavior of the various actors. In conducting this investigation on the causes of the crisis it was not simply a description of the crisis using the main economic and social-economic parameters. It was necessary to select different authors who have produced readings on the etiology of the crisis. Our concern was that interpreters used to enjoy either epistemic authority or political authority or both. In addition, we have tried to retain those authors who have exposed the causes of the crisis in a clear and accessible manner not only to economists.

As far as recovery measures are concerned, we have also turned to the main sources. First of all, because the discussion was concerned with the public policies of intervention against the crisis, we turned to the legal documents which stipulated the measures against it. Secondly, we used the same statistics with a high degree of objectivity in regards to the main parameters, so that our judgments about the effectiveness of the measures would be based, as far as possible, upon a comprehensive database and objective interpretations. Finally, it has to be said that we have accomplished each of these stages of the research of the recent crisis for each of the varieties of financial capitalism. In fact, we rather studied economic areas (US, EU – with a distinction between France, Germany, respectively the UK, but also former communist countries –, China, Russia, etc.). But, it is relatively easy to establish for each of them the connection between the economic area in question and the varieties of financial capitalism previously discussed. With this I think we have explained enough how we responded to the problems faced in the analysis of the recent crisis.

The results obtained in this analysis are particularly significant and have been fully exploited in the last chapter of the paper to which I will refer to immediately. However, some of these results highlighted in the third chapter are worth revisiting here as well, as they contribute to the formation of an overall picture of the essential nature of the link between economic fundamentals and public policy measures, which we are discussing extensively in the next chapter; this could not be done without the considerations just referred to.

First of all, it should be noted that the genesis of the recent crisis does not have the same economic fundamentals as that of 1929-1933. In other words, it did not happen during a long period of stagnation and economic decline, as was the case in 1929-1933. On the contrary, it started at the end of a long period of constant economic growth.

However, at the same time, it appeared during a period of deregulation that was, at the time, considered to be the cause of this growth. This deregulation occurred at the heart of Anglo-Saxon capitalism, and its main feature was the abolition of the provisions of the *Glass-Steagall Act* that prevented the formation of multi-functional economic and financial conglomerates. The result was the encouragement of financial speculation. The latter would not have produced crises alone, unless there was a second remarkable fact, namely that almost all the actors came into play. The shareholders were interested in dividends, the management in bonuses, borrowers in cheap money, real estate speculators in profit margins, and regulators, satisfied with the results of the deregulation made by themselves, in the continuation of the economic boom. Thus, it should be understood why the crisis hit so powerful and deeply not only in the Anglo-Saxon heart of capitalism, but also in its concentric circles, especially in Western Europe and Southeast Asia, directly involved in American exuberance.

The third fact is that economic globalization is a real process that has mediated the transmission of the crisis in areas such as Russia, China or Eastern Europe not directly involved in this exuberance.

Thus, this also being the fourth remarkable fact, if public policy, regulatory and supervisory issues played an important role in triggering and worsening of the crisis, its spreading beyond the area of its genesis was made mainly by economic mechanisms. This is a further proof that, in the case of capitalism, we are talking not only of a common essence but, especially today, of phenomena, processes and contagions that are very similar on a global scale.

Finally, the last remarkable fact is that the response to the crisis came almost entirely, regardless of the geographical area or variety of capitalism, from public policies, from the state, not from the main actors of the crisis that were private.

The actual results of the research are mainly in the last chapter – although many observations made earlier constitute in themselves little progress in the research and knowledge of the subject – because all the data, analyses and interpretations in the previous chapters converge here. However, this fourth chapter does not only provide a valid answer to the main hypothesis of this investigation and also a useful tool not only for obtaining this answer but also for another research. Starting from the common wisdom that what is born of the cat, eats mice or, in other words, from the idea imposed by Kant in epistemology, namely that we think in a causal way, we have developed a model for the causes of economic crises (whatever these may be). This model can be used not only to investigate the causes of crises but also to study their directions of development and, in particular, to analyze and to evaluate the responses to the crisis: to what level of crisis and its causality every response, every measure taken by various public and private decision-makers, was addressed to.

In developing the model, we started – as was normal for a research based on the assumption of the primacy of the economy – from studying a few economic models. They initially discussed strictly economic, objective aspects, what we can call as the economic fundamentals of capitalism. Economists themselves, observing the intricacies of the economy with the social and the political sphere (especially with the latter), have developed new economic models in which they attempted to capture not only the variables represented by economic fundamentals, but also those equally important determined by public policies; this aspect is extremely important because it shows how the primacy of the economy must be understood, at least in terms of this work, namely that the economic sphere has integrated the political decision as an inseparable reality that makes economics to be rather political economy, as it was named in the past[4]. We used these models in order to legitimate the conceptual distinction between the depth level (economic fundamentals) and the intermediate level (public policy), even if in reality the distinction is often difficult to do. To the model we added a surface level that consists mainly of behaviors of contextual actors, so that in a statistical representation these behaviors would be outliers. But in being so they seriously contribute to the onset of the crisis. We have given much space to interpreting the reactions to the crisis in the various spaces and capitalist varieties from the perspective of this model. Of course, we were interested in assessing anti-crisis responses, but moreover, we have used the results obtained in this investigation to strengthen the test of our hypothesis, that, at the fundamental level, capitalism, without excluding crises, does not necessarily generate them, not even frequently. Instead,

[4] The preference in the past 70-80 years for a quantitative economic analysis has, besides the advantage of a better control, the disadvantage that it has made the importance of public policies obsolete. The newer models we are talking about are trying to quantitatively integrate these aspects. In short, economics as it is today, quantitative, has ascendancy over the social and political sciences precisely because it has integrated them in its analyses. The hypothesis and this research are precisely about this integration; they are not against it, they are critical of the way of integration, of the inconsistent integration, as we have shown before, and as we will summarize immediately.

cyclical incoherence in public policies – deregulation that stimulates economic growth, but also excessive speculation before the crisis, followed by bail-out and new regulations[5] – has contributed seriously not only to worsening and widening the crises, but also, especially, to their recurrence. Because public policies of bail-out hamper the "educative activity" of the market by introducing moral hazard, a fundamental market mechanism that could distinguish between healthy growth and unhealthy speculation is castrated.

We have insisted on the need that the bail-out mechanism set up by public policies to be better founded than it is today, not only for moral reasons – the internalization of profits and the externalization of losses – but also for economic ones, because through moral hazard the market is prevented from exercising an important function, that of discriminating between viable and non-viable economic agents. But our insistence on the bail-out mechanism is not limited to these results; it is being used to test the central hypothesis of the research, namely the contribution of public policies to the worsening, expanding and repeating the crisis; in fact, to test the incoherence in public policy. By arguing that on the medium and long term the market could educate its actors so that the losses represented by the crisis may occur as rarely as possible and be limited, we noticed that in reality this is only a theoretical model (the classical one) that has never functioned at the factual level. In the crisis of 1929-1933, when there were not many pre-crisis regulations, the market was not allowed to select its actors. After the intervention made by increasing aggregate demand, drastic regulations were introduced[6]. This model had functioned for half a century, then deregulation was introduced because the economy was beginning to lose its productive power. The new deregulation, the freeing of the market, produced economic growth, but after a quarter century led to the crisis of 2007-2010 that has generated bail-out and new regulations. It is obvious that we are dealing with incoherence: before the crisis in order to promote growth, deregulation is promoted; in response to crises, bail-outs and regulations are used. Here our hypothesis is confirmed. It is nonetheless desirable to make some considerations about its importance in terms of future consequences.

[5] Which, as pointed out in the research, are more and more limited in their field: instead of delimitating the financial institutions areas of activity (as *Glass-Steagal Act* did), they allow them to act in many areas, regulating only the practices for every area (as *Dodd- Frank Act* does).

[6] The non-intervention period scared through social consequences. Keynesian policy yielded results, but at the cost of major changes to the American model of the economy. A more courageous and coherent decision could have left the market to decide on viable actors and, at the same time, could have provided social support to the market losers. The public policies cycle (regulation, deregulation, bail-out) that followed would have been annihilated from its root.

The data shows that the cycle is getting more and more tighter. It seems that we are dealing with a kind of cyclicality that contracts between deregulation and regulation; it addresses the growth, stagnation and recession problems that normal market cycles should deal with. The major difference is that if the economic cycles are constant in the market because they are market-specific, when they are replaced by the regulation-deregulation cycle, they tend to contract precisely because they are artificial. Most likely, this substitution of cycles has taken place because the economic and political complex pursues at any cost the extraction of the profit. That's why the contraction and unsustainability in the long run of the deregulation-regulation cycle exist. Certainly, the market alone – that's why the market solution, i.e. deregulation coherence is preferable – would not have provided such profits but would have provided them in a more sustainable way. Economic coherence brings its long-term fruits. The current regulation-deregulation model in the pursuit of profit maximization – downsizing the sustainability – is paradoxically anti-capitalist; in a logical order, the capitalist first seeks profit and only secondly as much profit as possible; of course, in reality, the two cannot be distinguished, but if you give the capitalist the opportunity to seek bigger and bigger profits without the risk of losing them, then you take the fundamental mechanism of controlling the health of capitalism. This leads to huge debts that have been projected in the future or onto other economies; so, the crisis situation is created and resources are lost, that is, through an alliance between politics and the economy in the form of this unhealthy regulation-deregulation cycle. Even if it's called Apple, that is the worm in the apple.

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