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A Sisyphus Myth for Modern Times

How could one not remember The Prisoner – the cult British 60s series in which a giant bubble frantically chased the hero played by Patrick McGoohan? These days, our world is in a similar situation – each and every one of us are hostages of bubbles because the world is full of them, and not just from the speculative bubbles that plague our markets. Indeed, there is nothing easier than differentiating the bubble that imprisons and isolates our politicians, the salary and bonuses bubble for the executive managers of large companies and in the finance world, the youth unemployment bubble, and finally the inequality bubble. Just like the bubble that tirelessly chased the prisoner of our TV series, it would seem that our financial system has been affected by a similar curse because the collapse of a bubble displaces like clockwork the speculative fever of another instrument or another market, which then blows up to make another speculative bubble! Indeed, financially we are progressively losing control of our lives. It wasn't for any reason that Joseph Stiglitz, the Nobel prize winner in Economics, questioned whether or not a person's life nowadays depends on "their income or the education provided by their parents".

Financial deregulation has given rise to almost twenty-five years of banking and stock-market crises. This laissez-faire, having spread throughout the English-speaking world to Continental Europe and reaching Latin America and Asia, is the culmination of a planet that has been progressively plagued by speculative bubbles, which have blown up to some devastating financial, economic and of course human, effects. A non-exhaustive list covering modern times would go from the resounding failure in 1984 of what was then the seventh largest American bank – "The Continental Illinois National Bank and Trust" – to the Wall Street Crash in October 1987, to Japan's Lost Decade, starting in 1990. It would further include the banking crisis in the Scandinavian countries between 1987 and 1991, the violent financial shake-up in Mexico in 1994, the 1997 Asian debacle, the 1998 Russian crash, the implosion of technology stocks from the year 2000, with the grand finale of the current crisis that started with subprime mortgages in the Spring of 2007. The latter remains more persistent than the others in the sense that the brief lull periods have been followed by ever more serious developments since 2007, and in different locations. The current upheaval is also vastly more complex than those that came before it, probably due to the liquefaction of financial products, whose sophistication can in no way be compared to the products wielded in the nineties. Nevertheless, the first stage was punctuated by significant crashes, like those of Northern Rock in Great Britain (Fall 2007) and Bear Stearns in the United States (March 2008), existential threats to American mortgage giants (Fannie Mae et Freddie Mac ending up nationalized) and to AIG, the largest insurance company, ending with one of the most dramatic exits of its kind with Lehman Brothers. These last ones created unparalleled effects given that they all occurred in Fall 2008.

If the orthodox economists and conservative political directors agreed today on austerity being the only remedy to the crisis of the European periphery countries, the streaks of bad luck in countries such as Greece and Spain must therefore be analyzed from a different angle, with the neoliberal circle of influence being greatly less favorable. The diagnostic arising from current public deficits, accused of being responsible for all of our sorrows, deliberately avoids the pending questions by only engaging organizational aspects and the consequences of actions being settled with massive public debts. We forget, for example, that even in 2008 Spain respected the Maastricht criteria (the utmost accolade of financial orthodox) and that it was considered as an excellent student of the Euro Zone. We also tend to ignore that the Greek crisis was part of a sequence set off by the liberalization of the world-wide financial system, of which the establishing of the Euro Zone formed a supplementary stage. This persistence in laying down the budgetary rigor does nothing more than mask the immense labyrinth of financial innovation. High finance had indeed managed during the 2000s to completely separate the decision to grant loans to households and businesses on the one hand, from the latent risks and creditworthiness from their debtors on the other hand. In this respect, let us make no mistake, the public deficits are in no way the cause of our current troubles, which are to be found through the immense generosity of the suppliers of loans dispensed to entire sectors of the population, regardless of whether or not they qualify for them. It has likewise made use of a leverage effect, in a completely indifferent way, by a totally unrestrained system by financial instruments that promote schizophrenia and irresponsibility. This hypercomplexity of new financial products and sophistication of securitizations have ended up in an explosion out of all proportion to demand (especially in the United States and in Great Britain). Really, finance has forced the hand of the consumer by literally inundating him with loans through an increasingly inventive financial engineering. This generalized euphoria takes place through financial and prudential corruptions and of a general laxity of our economic and political leaders, desensitized by and financial system which they were convinced would have become optimum. Disguised by the financial products' complexity, ordinary citizens were thus preyed upon, becoming speculators, similar to those of a Ponzi scheme, convinced that the value of their real estate would hit a breathtakingly high summit.

How could one resist such a whirlwind when the U.S. retail price index was apprising around 15% each year between 2001 and 2006? This unprecedented, easy profit pyramid was nonetheless easily knocked down in 2007 shelling the brushed-aside financial heavyweights in Wall Street with a disconcerting ease and, more importantly, with devastating consequences for the American, and therefore global, economy. It is thus the Anglo-Saxon events in 2007 and 2008 – rooted in the speculative euphoria of private lending – which provided the decisive impetus to a crisis that consequently spread throughout Europe. It is the gradual infection of the global banking system, the collapse of international commerce and toxic financial products and other "zombie" debt held by private lenders who have lit a match that still consumes us to this day. These are not public debts. Certain countries harshly affected by the crisis today benefit from the sizeable budget surpluses, such as Spain, thanks to their tax revenue from their real estate bubble. It is thus absurd to hue and cry about the States adopting a budgetary rigor which is supposed to correct the inequalities that their responsibility is in no way invested in.

The international financial community demanded no less from the Western nations than a return to budgetary balances. However the States almost lost all power over their economic policies because they gave up on influencing the financial variables. Isn't progressive deregulation effectively expressed by determining the exchange rates by the sole exchange market? By continuous market speculation (where shares may be listed night and day), minute by minute establishing the capitalization of a business? By a bond market handling enormous – or even reduced – amounts on loan to private debtors or indeed the States? It is thus an environment in which structured financial products where derivatives and other so-called "exotic" instruments have confiscated the very substance of the States' financial and economic power – even the most powerful ones like the United States of America – with the financial community demanding a fiscal consolidation that they no longer have the means to carry out well. The power of our States has also insidiously been diluted by the liberal globalization, insofar as our companies are totally dependent on globalization.

The European Union has, in addition, glaringly highlighted this process whereby the States give up the majority of their competences and prerogatives so as to be in a position to weigh in and be relevant (regarding Asia and the U.S.) in this global battle of capitalism. The relinquishing of powers yet again to the States has been completely lost to the international crisis. The result today is one of financial ruin in which politicians can no longer do anything as they have been stripped of almost all of their leverages. This is why today's emperors have resorted to "normal" clothes, which fit them all too well! Additionally, not happy with being saved and bailed out by their respective supervisory governments, the establishments and finance world today blame the States for their deficits… the very ones who have been worsened by saving the financial markets from the money pit they had thrown themselves headfirst into. It is a comical situation, albeit immoral, in which the States are baffled by a power placed in the hands of the financial markets, and unbalanced by steep amounts injected into the balance sheets of the flowerets of this globalized financial world and are required to clean up their public accounts. The wide range of final demands from creditors who bear a strong weight on the States to be reimbursed, at the risk of speeding up the generalized financial collapse of which they themselves (the creditors and the financial system) would be the first ones to suffer from! There is nothing but incoherence for this financial community that has not stopped demanding rigor and austerity from the States all the while bemoaning a growth that is too weak to allow the repayment of public debts! When will the markets, and with them the caste of orthodox policies that slavishly monitor them, realize that budget economies are not a credible strategy to reduce public deficits?

Rigor is but a sedative – albeit a temporary one – slowing down the creditors and a bitter pill to be swallowed by the population. Or even worse, given that it is the countries that have implemented a tough austerity and who are the most punished by the financial markets, ones that have gotten out of control by a growth that naturally undermines them. Is it not strange to consider a State's deficit in the same light as a household budget or a company's balance sheet? It is most certainly not reassuring for a creditor to learn that its debtor is having payment problems or that he or she runs the risk of losing their job. Because of all this, this type of comparison can in no way be applied to the public debt of a sovereign nation for the sole reason that a state has a duty to stabilize the economic and financial conditions of the area it is responsible for. It is unacceptable to wallow in deceitful reasoning and suspect demonstrations of rationality that confuse the necessary budgetary rigor of a household or a company with the responsibilities of a state as a last resource to revive their activity and economic make-up. Who will take the reins and who will fill in the gaps if the private sector is paralyzed in its expenditures, in its production, and in its investments? Without the regulatory intervention of the state, unemployment is condemned to get worse and the economy to recant, together with an unavoidable deterioration of public accounts. In times of crisis, austerity most certainly does not go well will fiscal consolidation, even if this technical debate masks another, even more fundamental debate.

Indeed, it is the State's role in the economy, which is at the heart of these diametrically opposed (or even antagonistic) solutions – between those in favor of budgetary rigor, with an additional setback for the state, and those who tolerate public deficits, considered as the price to pay for a state taking on its duty as arbitrator and regulator. Accepting budgetary economies doesn't just mean going back to a financial and accounting orthodox that is both unjustified and counter-productive in times of crisis. It means resigning oneself to yet again and even more cut back the rights of the state, and by extension, ours. It means accepting the verdict of the markets and leaving the overwhelming majority of our citizens defenseless. A real trench warfare is unveiled to this effect by the tenants of this strict orthodox, who don't hesitate in employing "budgetary fear tactics" (to use Paul Krugman's expression) in order to their final goal consisting in an almost total eclipse of political powers. To do this, a specious argument is developed to cover all defenses, which deliberately and happily mixes individual solvency and the solvency of the state, against a public that is bombarded with cataclysmic images, the sole goal of which is to put pressure on their government to adopt slimming measures. At the same time, we put up with the cynicism of our leaders who, without asking too many questions, accept the dictates of the markets and impose the rigor. Such cynicism is believed by a citizen who accepts all the sacrifices under the false pretense that the debts must one day be paid back. Paradoxically, the current financial crisis in itself serves as an argument for the tenants of this orthodox who argue in favor of further constricting public powers. So it is clearly the European countries in which the state again as some importance (such as Scandinavian countries and, to a lesser extent, France) who have best endured the ordeals.

Does austerity, then, aim to reduce the deficits, or is it but a pretext to move the state backwards, demolishing in the process what remains of social programs? In a situation in which the profits of large companies and financial establishments are beating records, in which access to low-cost capitals allows them to increase leverages and investment possibilities, how can one not be troubled by these incessant calls for austerity that are nothing but smoke screens designed to confuse? Let us remember the premonitory words of Aldous Huxley in "Brave New World": "Sixty-two thousand four hundred repetitions make one truth". The real objective evidently being a complete anorexia of the state, which, like clockwork shall translate as a bulimia of the private sector, starting with the finance sector. It would now be a good time recall Keynes again who (in 1936) concluded his "General Theory" with a call