Neoliberalism and Alienation

The monetary system defined by Bretton Woods, relying on the value of key currencies to the green back and correlating that to gold, was abandoned in 1971-1972 by the U.S. which no longer had the means of defending this parity. It was ruled that currencies would be floated against one another, entirely subjected to the law of supply and demand, in other words, to market forces. A first gaping hole was thus opened, into which the then ardent supporters of the total freedom of financial flows were engulfed. The substantial increase in oil tariffs in 1973 further allowed petrodollars to be reinvested through financing which was launched in the invention of structured products allowing these funds to be channelled profitably toward western countries in full force. Very badly managed by central banks, the soaring oil prices infected the whole economy step by step which was suffering since the mid-1970s from unprecedented hyperinflation worldwide. Until President Carter asked Paul Volcker in 1979 to head up the Federal Reserve to engage in a historic and thankless fight against this hyperinflation. Certainly successful, but not without plunging the U.S. – and the world – economy into a recession in favor of interest rates having attained 20% in 1980! This hyperinflation and rising unemployment since the mid-1970s were a bargain for the monetarists – promoters and ultra-promoters of frenzied liberalism – whose leader and most iconic spokesperson was Milton Friedman.

This deadly combination of unemployment and hyperinflation was actually the ideal pretext for Friedman and his acolytes who squarely blamed lax monetary policy and fiscal and budgetary indiscipline at the time. According to them, the inflation was entirely due to the expansion of money supply by central banks. However, they considered that the supply of cash in circulation had produced another harmful effect, as harmful as hyperinflation. Friedman actually accused the creation of money for bloating the state and forcing, mechanically, the private sector to reduce its investments. As they start from the principle that too much state intervention kills private initiative, the monetarists therefore exerted considerable pressure to make governments drastically restrict their spending. The advent of Margaret Thatcher in Great Britain and Ronald Reagan in the U.S. further provided these supporters of “ultraliberalism” with the perfect opportunity to implement their theory,
which was gladly and diligently undertaken by the U.K. and U.S. governments. The advent of Margaret Thatcher in Great Britain and Ronald Reagan in the U.S. further provided these supporters of “ultraliberalism” with the perfect opportunity to implement their theory, which was gladly and diligently undertaken by the U.K. and U.S. governments. “Government is not the solution to our problem. Government IS the problem”, Ronald Reagan resolutely declared during his inauguration on January 20, 1981. From that period, economic conservatism and social regression were thus to reign supreme. How can we forget the devastating effect (on the U.S. economy) of the Reagan years, which embarked on a policy scrupulously used to reduce labor’s share in the national revenue (from 21.5% in 1980 to 12% in 2005), in order to increase that of the financial services’ (from 15% in 1980 to 22% in 2005)? The void left by the state was very naturally filled by hyperbolic expansion of the financial sector said to be efficient, even “perfect”. This finance was actually called on to provide all services to the economy with the result being the birth of financial markets! This finance was actually called on to provide all services to the economy with the result being the birth of financial markets! Of course, these already existed before the mid-1970s but only really caught on when a miraculous virtue discovered them, i.e. generating immense profit, therefore revenue and potentially jobs. The conditions linked to this growth and prosperity meant that the players had to assume a certain level of risk and the markets deregulated.

The all-knowingness/omniscience of the markets would optimally explore available resources. Markets would act like a justice of the peace who would restore order to business and household finances by imprinting all sectors of the economy with its benevolent efficiency. From that moment on, financial markets underwent a genuine transfiguration: they became “ideal” financial markets. The constant and democratized flow of information breathed efficiency into the markets in the sense where their prices reflected at any given moment the state of health of business, and therefore the economy. The admirers of the financial market were even persuade that its prices were the result of rational balance and that employment was in fact only a variable in the optimization of stock market valuations. It is from this period that the notion of the “disposable” worker or employee – which certainly goes back to the end of the 19th Century – was formally acknowledged, and publicly assumed by the leaders of this ideal market. And for good reason: any superfluous consideration and any kind of mind/spirit/soul searching should give way to markets which showed the price – and therefore the financial situation – of all the players. Everything had and must have a price, including man. As Eugène Fama said, born in 1939 and one of the founding fathers of this theory: “I take the market efficiency hypothesis to be the simple statement that security prices fully
reflect all available information”. “Simple” affirmation, accessible to all and easy to integrate, hence the appearance, among other things, of jobs where trading, selling and buying sufficed. This famous “efficiency” was not, however, quantifiable and was not either a verifiable fact through market research. All the same, this theory sparked general enthusiasm when it concluded that the benefits and risks involved would end up merged into one price for such asset at any given moment. What is the information available to investors and how is it reflected in the financial markets, are questions that Friedman, Fama and the others seem not to have dug up. Their postulate was too tempting after all: it implied that all economic agents behaved rationally and, particularly, it defined a universal standard – pricing – from which everything could be planned. It became possible to anticipate future fluctuations and the door opened to complex financial products which would be designed according to all possible and imaginable variations of pricing. But in particular (and this is what interests us from the point of view of the financial crisis which commenced in 2007), this model would identify and define all risks, even control them and curb them with instruments such as options. This all-powerful heady sentiment – according to which nothing very bad could happen and that, definitively, all risk-taking would be compensated – was global and was to prevail even with central bankers, the ultimate guardians of the temple… Nothing seemed likely to get in the way of infinite growth and uninterrupted appreciation of financial markets. Finally, the only risk was not daring to take risks!

In fact, let us remind ourselves of this period not so long gone where almost all the analysts, investors and traders fuss about “reducing risks to the global economy”, in defiance of Cassandras who showed mistrust and who recommended prudence vis-à-vis general market, financial and economic euphoria. This overwhelming majority claimed therefore that world imbalances were only the natural result of indulgent globalization. Only a minority – reduced to silence – fearing that the U.S., which was already experiencing difficulty in attracting sufficient capital to pay their deficits during this blessed period, found itself in an inextricable situation during this slowdown and perhaps might have been reduced to sell whole sectors of their economy to survive! The theorists of globalization debated to ass whether this widespread decline in macro-economic volatility was adequately reflected in stock markets. Actually, in a situation where the previous bubble of technological securities had been rapidly overcome, where the catastrophe of astronomical U.S. deficits predicted several times by the bad omens had never materialized and where ever increasing oil prices could not have interfered with the U.S. economy, the stock markets seemed still and always under-valued… What risk could there possibly be to borrow more to make capital more and more profitable? The use of leverage
was widespread, thus affecting the overall investment climate since the smallest investor was from now being financed in currencies at law interest rate (as the Japanese Yen of the Swiss Franc) to invest several times the amount borrowed in instruments with high returns. What is more natural than controlled volatility? Leaving cash sitting in an account meant at that time sacrilege: has financial history not been systematically written by and for winners?

The deregulation of our economies and money obviously comes directly from this assumption of the efficient market. No longer any need for regulation or safeguards if the market is efficient, therefore optimal. Useless to restrain an animal which is self-regulated by pricing, which eliminates the weakest – those who made bad decisions – and which makes the strongest win. Therefore, it is a genuine natural selection on which omniscient and infallible financial markets function. As self-regulation unfurls its beneficial effects on to the economy, the task of the state was therefore to be reduced to its simplest expression, as for example to try this and that to lower the “natural” level of unemployment. As such, the state was asked to withdraw its economic and financial regulatory authorities and only to punish the extreme cases. Therefore, it is Friedman and his consorts to whom we owe the succession of financial crises and earthquakes, since the 1987 stock market crash in 1987 to the 2007 subprime crisis by way of the Dot Com Tech Burst in 2000. Indeed it was impossible – even against nature – to have so-called regulations co-exist with efficient markets. In this best of worlds, embezzlement and fraud were impossible. Indeed, as the markets could not be efficient in the face of fraud, dishonest acts could no longer exist since the markets were precisely efficient. In this best of worlds, embezzlement and fraud were impossible. Indeed, as the markets could not be efficient in the face of fraud, dishonest acts could no longer exist since the markets were precisely efficient. This spurious circular argument was widespread among all the stakeholders, which is to say, among bankers and economists, of course, but also well entrenched with regulators and central bankers. The all-powerful president of the U.S. Federal Reserve for almost twenty years, Alan Greenspan thus declined to investigate presumed embezzlements regarding derivatives, or notorious abuses of mortgage loans on which colleagues or consumer defenders asked him to conduct. He sought refuge behind the dogma of efficient markets which could not, in all “logic”, tolerate suspicious behavior. U.S. justice itself is today exasperated with the attitude of financers. “The perception is that no one takes white collar crime seriously” is one of the symptoms of this annoyance, declared U.S. federal judge Emmet Sullivan in the summer of 2012. Indeed, he deplored that senior banking executives on trial “come to trial, plead guilty and are sent home to watch their favorite programs”… He is not the only judge at this level to
make this bitter finding. We may remember another federal judge, Jed Rakoff, who in November 2011 had rejected a settlement of $285 million reached between Citigroup – accused of selling its clients derivatives and “toxic” mortgages – and the U.S. regulator, the Securities and Exchange Commission (SEC). By demanding that a proper trial be held, Rakoff refused such a “deal” on the run and away from courtrooms. Is it not, however the SEC itself which made this decision, keen – it would seem – to protect the top U.S. bank? These secret agreements and other “guilty pleas” in high finance perhaps give the illusion that justice is served. They are only carte blanche granted to a world which remains persuaded that everything can be bought. Conviction which, of the rest, is not contradicted by justice.