http://enzofabioarcangeli.files.wordpress.com/2008/06/subcrimebiosocialscience.pdf

A subcrime civil war victim. 2007\09\18: fore-closure day for Glenda, losing this nice home *(Nikki Kahn - Washington Post)*

The subcrime crisis is rooted in a long wave of deflation

CONTENTS

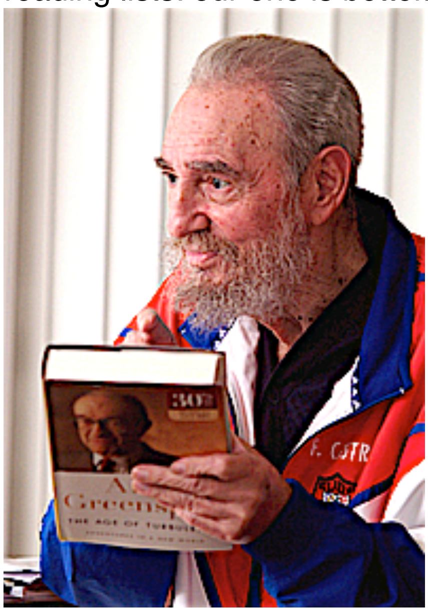
Socialisme, ou barbarie = a sublife vampirised by subcrime.

1. We are in a global subcrime recession, moving South-East from the US. Adam Smith would recognize as an old acquaintance (the East India Co.), the enlightened-to-shadow global finance: privately & pirately taxing the world; using 1.5 billion Chindian farmers to squeeze the working class; now even sucking their wages, and dreams of a decent life - with SUBCRIME mortgages and foreclosures (see Glenda's picture above).

2. Are States striking back? March 2008: do markets submit to the Leviathan? Not sure. A WSJ leader ("Reform a la Glasgow") fights back Paulson-Bernanke-Frank regulation, with a self-regulation narrative: after last mania, markets de-securitize, trade off easy profits for risk management and will be ready for the next mania. Futures on Chinese imperialism?

3. Such a narrative is at odds with one of the deepest ever Capitalist crisis. Bear Stearn is no.2, Lehman Brothers no.3. In between LT deflation and ST stagflation, either THIS or the NEXT recession will degenerate into a 2010s depression, in absence of exogenous or political chocs. In a democracy, Bernanke, Trichet, the rating agency and big finance CEOs would be in jail for their subcrimes. But we do not live in democracies: in a liberal-to-tyrannic (see Castro) gamma of ThanatoSystems. Subcrime is a paradigmatic case of Bio- versus Thanato-politics.

Fidel Castro with Greenspan's book *The Age of Turbulence* (*AP photo*). Tyrans have awful reading lists: our one is better.



Greenspan is not worth reading: no revelation, no scoop, we knew him enough already. Stop! BASTA ... la victoria siempre

1. *The ICT long wave and its deflationary stalemate.*

*We do not need any **2008 Manifesto**, for getting a revolution into the streets. If rentiers-subcrime victims had to read and understand the General Theory and the Financial Times, capitalisms would be just blown out in an **overnight** revolt.*
ef arcangeli

Concurrent crises: 1) housing - mortgage markets, namely in the US; 2) global shadow financial system meltdown; [1] *3) ag- and stag-flation from oil and primary resources oligopolies, often hyper concentrated markets.* [2] *Here are a few disputable, falsifiable hypotheses: it's social science, beauty!*

Let us anticipate a synthesis of our Section 1 and 2 conclusions first: our diagnosis and prognosis of the subcrime financial meltdown and global recession, in a deflationary economic climate, perturbed by stagflation factors.

DIAGNOSIS

The subcrime recession occurs within a Long Wave (LW) frame: technical paradigms (Dosi) become socio-economic ones through a complex social change, that regulates innovation diffusion, and is marked by financial bubbles and busts. Nothing guarantees a priori a potential growth LW will take off: on the contrary, a lagging social change often induces a mismatch. The current deflationary hysteresis of the global economy is a macro-case of such a Carlota Perez's mismatch. An ICT LW took off in the 1970s, but was not met by adequate POST-FORDIST social and political reforms. On the contrary, a lack of Surplus Value (SV) redistribution, and a Reaganite freezing of societal evolution degenerated the LW ups and downs into a flat Epoch of Deflation (masked by the '90s boom). An OVER-REACTION to Marx's law of falling profit rate, uncorrected by democracy and social conflict, yielded excess SV, OVER-ACCUMULATION. This was deepened by the way capitalisms dealt with post-communism (L. Napoleoni).

PROGNOSIS

Either this, or the next short-run recession will degenerate into a systemic depression. The 2010s will pass to history like the 1880s and 1930s: uncertainty concerns mainly BRICS growth: from 10%, down to what? In the rest of the world, there will be 0 growth, slow innovations diffusion, high financial speculation and stagflation.
In a democracy, Bernanke and Trichet, the rating agency and big finance CEOs would be all in jail for their sub-crimes; therefore capitalist systems would evolve differently, under new leaderships. As subcriminals impunity testifies,

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[1] **Shadow financial system** = A legacy of this trend: the long waves of profits, together with co-evolving business conventions and State regulations, move financial systems into "Blue Oceans" of Far West shadow finance. Late innovations include derivatives, securitization and financial vehicles, among others.
Please note that this does not happen in a desert: global over-accumulation disequilibria discharge tensions, monetary capital and resources entitlements stocks everywhere: namely in the Sovereign Funds (SWF), in the hands of savings-investments surplus States. **The current Minsky Meltdown is unique in this aspect:** it is a strategic coordination, Nash game between two poles: shadow system collapse *versus* SWF strength.

Minsky's post Keynesian instability model: a) defines financial innovations in Schumpeter's terms; b) applies to them some testable forecasts about bubbles-and-meltdowns: see Section 3.

Post-Schumpeter neo-institutionalists' (Orléan 1999) discoveries: a) conventions are self-organising agencies; b) evolutionary **herd behaviours,** are accelerating Minsky Meltdowns in the digital era.

Chesnais (2006) finds, in forgotten parts of Marx, Capital Book 3 and Theories of Surplus Value, some precious hints, allowing for a **Political Economy of this transition**, from regulated to shadow finance.

Blue Ocean (Chan and Mauborgne 2007) is a managerial fad, interpreting today's "animal spirits". Securitization and subprime applied it successfully to financial and mortgage markets.

[2] Commodities are not likely to deflate across most of 2008, for many reasons: demand decelerates but still keeps going, namely in Chinese manufacturing; in agriculture, price bubbles are even greater; strong commodities market power; bubble demand as refuge goods and quasi-money ($ losing an international standard status); refuge markets, partially isolated from global deflation. AGflation and the speculation on oil futures, by adding speculative inflation to subcrime recession **(actually States and finance throw money in futures, in search of lost easy profits)** accelerate the crisis via stagflation. The latter carries a risk of double binding (Catch 22), that would eliminate from the scene any effect of monetary and most economic policies, exp. in the crazy, **unbelievable lack of ANY international coop.**

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1970s - now: a Minsky long wave, over-accumulation and financial instability (Aglietta, Chesnais). Perez Hypothesis: she associates Minsky Cycles to clusters of innovation.

The Minsky Moment: Comment. The New Yorker Feb. 4, 2008.
In Minsky, you meet also **Marx, Fisher, Keynes, Kalecki,** and his Harvard professors: **Leontiev and Schumpeter.**

we do not live in democracies (no one is left), but a liberal (India, S. Africa, West) to tyrannic (Africa, China, Russia) gamma of ThanatoSystems.

More in detail:

1. A KONDRATIEV LONG WAVE (1970s +), unmatched by an appropriate institutional environment (Perez 2002) is exhausting. It was financial globalisation and Far West (e.g., camorras linking up with China's Triads: Napoleoni 2008, p.69). FAQs:
   - Will science, policy and science policy, assisted by "creative destruction" Tsunamis, make room now, for new innovation clusters?
   - Is Marxian Political Economy right: technical change (relative surplus value - SV) is always associated with slavery (absolute SV)?
   - Which is Greenspan's dissipative age legacy to our grandchildren?
2. The inner logic of over-accumulation, typical of the "20 Glorious" (1980s-90s) expansionary phase of the Long Wave, has fuelled - as everyone expected, exc. blind policy makers à la Greenspan, and his subcrime innocent victims - a Minsky financial cycle (Aglietta-Berrebi, Chesnais and Minsky).
3. As in the past (last case: Greenspan&Clinton bluff and bubble of the monetary crafted, purely financial and instantly evaporating New Economy - remember the husband before casting your vote to the wife), some social engineering was required, in order to support finance bubbles with an appropriate environment (plancton). This time, it was subcrime.
4. 2 million foreclosures are expected in the US in 1 year time. [3] Subcrime is a civil war necessary to shadow finance: new blood? Best choice: US not-so-poor, borderline workers (a family earning $3000-4500, €2000-3000 per month). Financial horizontal (new clients; Paul McCulley's plancton) and vertical dynamics (derivatives, securitization, vehicles) mutated into civil war. A cruel episode of aggression against US citizens, namely black and also latinos - in the tradition of such a racist, violent and fully eradicated civil society (Weil 1949).
5. Minsky inversion Moment: the subprime meltdown (since Summer 2007) runs back through all its previous channels of financial innovation diffusion. The first trip was distributing extra-profits, the return trip is debt crisis time.
6. Therefore, the Mortage meltdown is degenerating now onto a fully fledged financial meltdown, a shadow system collapse (Roubini). Financial Accelerators amplify the credit crunch. A 2008+ recession follows, with a high depression potential. 1930-31 key transition was the banks' domino: who can stop it now? China's world factory: how will it slow down?
7. In search of bio-chemical, sierotonin micro-foundations of a macro-depression. The latter should be exploited as a lab, for testing a Unified Theory of Depressions and a unique mathematical model: all the elements are already there, in separate human sciences, just calling for a unified frame, viewpoint. In our definition of Depression, we conclude that: [4]

Now micro\macro, Ego\social depression are subject to a crisis (this points to a unified system, calling for a still missing unified theory): fiscal, monetary and social policies need an electroshock, a New Deal, a quantum leap forward; otherwise, they are ill-suited to fight the new viruses (securitization, subprime, etc.).

FAQ 4: **Socialism or sublife savagery (barbarie)?** *Might Crisis Capitalism versions (in unsteady states of turmoil) succeed, where Socialisms failed: to help us coping with, undermining and finally, one day, overcoming them?* The answer is: no, forget old fashioned historicism, any determinism at all. NO: a) until we redefine Socialisms as ecologies of cooperative projects; b) we work hard with\for the

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3 Joe Stiglitz, CNBC interview, April 2, 2008.

4 http://enzofabioarcangeli.wordpress.com/depression_arcapedia/
Depression = the "down" phase of a bipolar human system, repeatedly going through a cycle; euphoria, inflation and self esteem, is followed by a transition to a short- or long-term deflation, introversion and under-esteem.

exploited, the expropriated, the enslaved, their solidarity to resurrect. c) "The worst, the better" logic, never was a good socialist tactics. d) In this crisis, there is already too much anxiety, depression and suffering, requiring immediate political answers: e) for the absolute value of each single being, the Other (Lévinas). f) Also to contrast demagogy, dirty tricks by dominant rentiers. g) Institutions and the State, regions and space matter. h) They are the battlefields of an acute class war where weaker, less organised groups are vampirised: see LA favelas, e.g. i) After unequal growth and class -education -gender -race divides, it is grapes of unequal recession wrath season, now.[5] *j) This crisis is rooted in hyper-procyclical Greenspan's policies: elsewhere he'd be WANTED. In US rentier society, he's deified. k) The WSJ is obliged to conclude its April 2 leader, defending Wall street wizzing kids from Washington-Fed regulatory attacks, by saying: "Today's credit panic isn't some "crisis of capitalism" that needs some new layer of regulation". l) Truth is: Rentiers, by overdoing, are really shaking capitalisms' bases. Their "20 glorious years" lead to a DEFLATIONARY AGE. Chindian adding to Labour Force, up from 1.46 to 2.93 bn = 2nd Great Transformation, with chain-linked and epochal effects:*

- *fast wages convergence towards, sometimes even below Labour Force reproduction costs;*
- *the dismantling of Western, namely the US middle class, precipitating towards debt and literally proletarian social conditions (you only have children, and even get trapped into the American Dream illusion of buying a property for them: Napoleoni 2008, pp. 44 ff., It. ed.; Jorion 2007): since there is no democracy, Capitalisms need no more a Middle Class cushion;*
- *a cluster of regressive "social innovations" slavery, precarious and flexible work conditions;*
- *literal slavery plays a marginal role, since the Chindian countryside offers a much cheaper andsafer way to storage an infinite IRA at the border of human life. Impact of global labour markets Great Transformation: a windfall mass of $ profits from absolute surpus value (ASV), an order of magnitude bigger than ICT-related RSV (Relative SV);*
- *channelling these sudden ASV profits into new financial outlets: SAVINGS supply-side of the last securitization wave; burst of the bubble channeling over-accumualtion into speculation.*

A TSUNAMI OF DEFLATION: current LW, following the 2nd Great Transformation. FEMINISM -SOCIALISM a NECESSARY way out. On the other hand, a resilient Rentiers Ancient Régime weakens exactly the oppressed social forces, carriers of an alternative.

DIAGNOSIS. We frame the current subcrime recession within a Long Wave (Marx, Kondratiev, Schumpeter):

a) Long Wave (LW) theory addresses the shifts in longrun growth trends. It is complementary to Keynes-Kalecki-Minsky theory of cycles. It argues that, because of the credit- innovation umbelical link, technical paradigms (Dosi) become socio-economic ones through a complex social change, regulating innovation diffusion, marked by financial bubbles and busts in 50-55 years waves (Perez). Its basic tenet, in both Freeman-Perez and Aglietta-Boyer versions, is NON AUTOMATISM: nothing guarantees *a priori* a potential growth LW will take off, on the contrary a lagging social change induces a mismatch.

b) The current deflationary hysteresis of the global economy is a macro-case of Carlota Perez mismatch. An ICT LW took off in the 1970s, but was not met by adequate POST-FORDIST social and political reforms (Aglietta, Boyer et al.: *école de la regulation*). On the contrary, a lack of Surplus Value (SV) redistribution and a Reaganite freezing of societal evolution, degenerated the LW ups and downs into a flat **Epoch of Deflation** (Aglietta-Berrebi). The desperate change for antidotes to Marx's law of falling profit rate, uncorrected by democracy and social conflict, yielded excess SV, OVER-ACCUMULATION. This was deepened by the way capitalisms dealt with post-communism:

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[5] The Open Dictionary's definition specifies a wrath continuum: from epic to ordinary (class) belligerence.
The noun "wrath" has two senses: 1. wrath -- (intense anger (usually on an epic scale)). 2. wrath, anger, ire, ira -- (belligerence aroused by a real or supposed wrong (personified as one of the deadly sins)).
"Furore" is the Italian word for wrath-1, adopted in Steinbeck's book and Ford's film title translation.

a) a rush to dismantling the Russian military -industrial complex: by de-industrialisation, mass famine and forced women prostitution (Chiesa, L. Napoleoni);

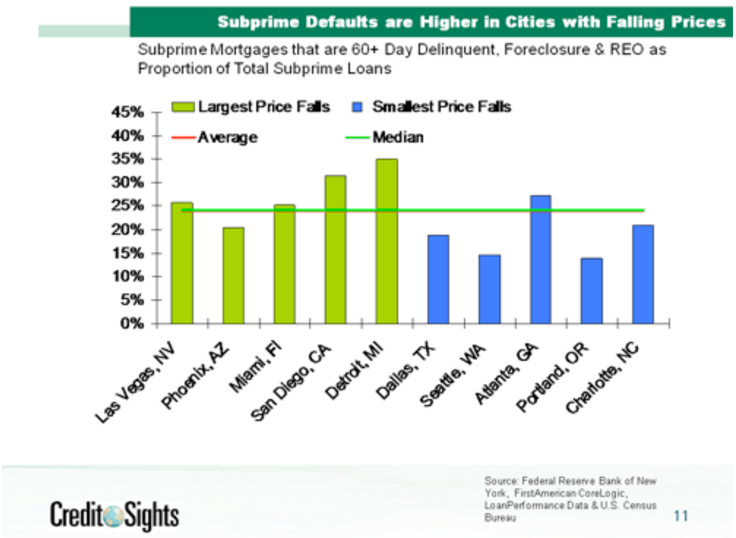
b) the inclusion of China, whose tyranny is delegated - with India - to manage an immense GIRA of 1.5 billion poor farmers: the root of a deflationary hysteresis, together with Excess Surplus Value Finance. The latter was an exclusive of the Western èlite, but from end 2007, Middle East and China want their share too (SWF, Sovereign Wealth Funds).

c) Russian financialisation leading the way to the degeneration of Reaganism into his previous world as a Hollywood actor: a Global Far West blurring every wall, even those between mafia, shadow, mainstream, and public finance.

d) The Chindian GIRA (outcome of the 2nd Great Transformation) has annichilated hours, wages and work conditions bargaining for AT LEAST ONE GENERATION, or more.

e) In Lewis' dual, and similar N\S models (e.g. Vera Lutz), Tropical economies cannot take off and technical change has no incentive, since their labour markets are pure demand markets - with unlimited supply. In Marxian terms, the Lewis-effect is a technical change inducement by labour markets. Large or growing IRAs subsitute Absolute for Relative surpus value. Since this has become no more a South, but a global condition:

1. the global economy is locked in a longrun demand deficit hysteresis (requiring a drastic redistribution), and liquidity trap (making **monetary and credit policies** totally ineffective)
2. **fiscal and income policy** implication: the world badly needs an epoch-making, giant income and wealth redistribution, from the élites to impoverished masses. A Keynes-Kalecki and Ricardo-Pasinetti models classic case, calling to rebalance 25 years of counter-distribution
3. in fact, the 1987-2007 ***Rentiers' glorious years*** increased: both the rate of Absolute and Relative Surplus Value extraction (in each OECD country, 9% GNP shifted from wages, to gross profits and self-employment incomes), and of its appropriation by Rentiers (Fig. 2)
4. such a counter-distribution dropped the global economy into **a deflationary régime**
5. a drastic improvement of world welfare, an intrinsic ICTs potential, went bust by Lewis-effects
6. a complication (Section 2): political systems do not allow such a *global Keynesian New Deal*
7. morale: a **political hysteresis** (Blair-Clinton-socialdem. PostReaganism, a follow up of "doc" Reaganism) in leading OECD countries, is blocking the road out of the **economic hysteresis.**



2. Entropy of policies, versus Robin Hood ones

The Bush administration and most forecasters do not understand that markets can be self-reinforcing on the downside as well as the upside, and are waiting for the housing market to find a bottom on its own. (Soros 2008)

Subcrime, the million lives (and billions, indirectly), the immense and imaginative financial machinery it involved, is a paradigmatic example of Thanato- versus Bio-politics.

A key issue on subcrime economic policies and their entropy (lack of impact), is an INTRA-CAPITALISTS fight on **new financial regulation régimes.** A déja vue. At every cluster of financial innovations (Section 3), they escape regulation, which arrives with a lag, so on so forth. **In the Reagan transition phase** (the emergence of current Thanato-political régimes), deregulation meant that **the State interved MORE MASSIVELY THAN EVER,** to transform societies into Masoch-labs, prone to be raped by Financial Elites. Porno site kink.com is a paradigm of Reaganism, or working class Cipputi by Altan (see picture).

At the deregulation extreme (someone must tell them Reaganism is History): ignoring two centuries of scholarly Smithian studies (Smith was a subversive, promoting an emergent productive class: they defend incumbent vultures; and the first theoretician of market failures, i.e. lack of self-healing properties), the **April 2 WSJ leader (*"Reform a la Glasgow"*)** fights back the bipartisan Paulson-Bernanke- Frank soft, mild regulatory connection, with the ususal Rentiers' narrative on *self-healing and self-regulation*. After the securitization mania, markets are de-securitizing by themselves; they will trade off "efficiency" (in fact, **easy profits from high, risky, unsustainable leverage ratios**) for better risk management, and be ready soon for the next manias, bubbles and busts (Minsky cycles: Section 3).

In fact, what we see are just financial vultures still on fly **only with State money and safety net**, with no prospective victim than other fellow vultures: Northern Rock, Bear Stearns, and now Lehman Brothers.

In the previous Section, we have brefly analysed the current situation of the global and regional economies:

a) the peculiar way a Reagan-microelectronics Kondratiev Long Wave (KLW) went burst (see Carlota Perez - for full references: goto Section 5). We mean, not just one bubble or another went burst, but a unique, entire, historical chance of sustainable progress (late capitalisms could not grasp) was missed by humanity and the Earth. For enriching the pockets of a few hundred billionaires. A Donald Duck world!

b) How did such a quantum technological jump go wrong and lost? It was killed on the altar of such Medieval rites as: b1) enrich a handful of global rentiers and rape an obsolete Middle Class (there is no democracy to be socially enveloped any more); b2) fuck the Russian mil.-ind. complex and link up with China; b3) tell people there is *laissez faire* and democracy, while MONOPOLIES RULE in thanato-political liberal régimes, or tyrannies (Adam Smith and Loretta Napoleoni, Michel Foucault and Roberto Esposito).

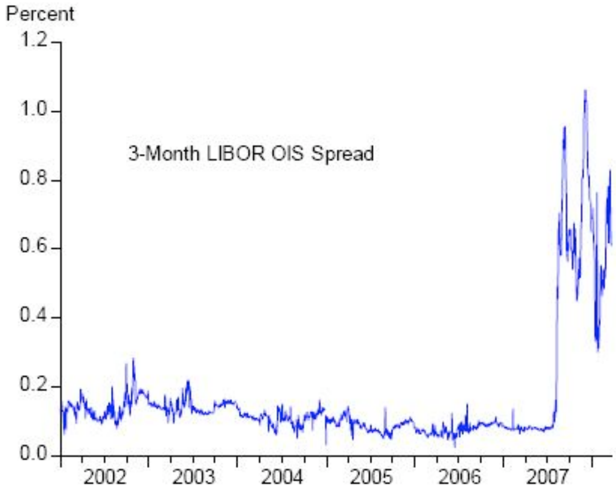
c) As we will conclude in this Section, we are bound to live for a generation or two, in a new (post-Reagan and MPUs) Deflationary Long Wave. Unless we struggle hard pro BIOS vs THANATOS.

We must now enter the crisis mechanisms, in order to test how policies might eventually affect them.

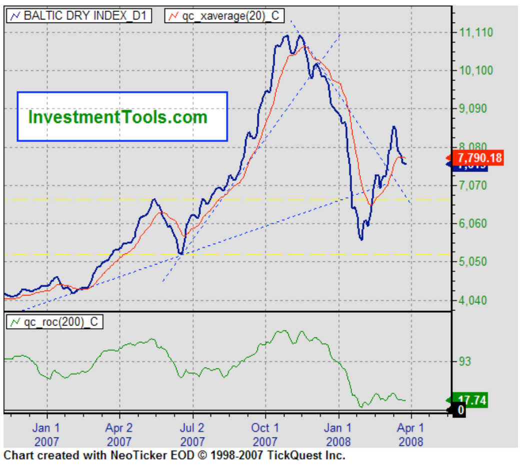
The graph below is an attempt at isolating the "expectation risk" of interest rates from lending and so capturing "pure risk" in interbank lending. It measures the Fed's favoured metric for interbank lending risk - the OIS to Libor spread.

Looking at spreads going back to December 2001 illustrates just how unusual this episode has been… the spread on August 9 was 25 basis points above the pre-August 9, 2007 average. That is 7 times the standard deviation before August 9-more than a 6-sigma event. The mean through March 20 was 16 standard deviations above the old mean, which under normality would have been an extraordinarily improbable event.

Fig. 1. Banks' lending risk spread



Beware always of guesses, forecasts and anticipations, even our ones. As many Authors quoted above say (e.g., Chesnais 2008), this is a specific, unique crisis - forget the textbooks. Unicity is rooted both diachronically (in all the learning and unlearning, the Penelope's doing and undoing, in the previous history and long wave now coming to a turning point) and synchronically: in current economic, social and class relations.
As for the latter, it is very hard to predict in advance how Keynes, Leontiev and Minsky classes of transmission mechanisms will actually operate, hic et nunc, on the "rough surfaces" of uncharted, unexplored territories: those of the NEW relational complex systems - allowing one to move: losses across shadow and open finance; real disequilibria between regional economies; profits, rents and wages across and intra-social classes.
In LA bidonvilles now, it's Grapes of Wrath time again: the temporary latino migrant worker (who lived there and was not interested to the American Dream of buying a house in the US), is displaced by subprime victims, because almost no one is supplying to the latter the rehousing facilities, urban planning textbooks and best practices are talking about. An advanced and model democracy, not even capable to talk (even less to practice) economic, social and urban planning, is bound to face hard times now, and to collect immiserising grapes.
Gillian Tett and Krishna Guha (FT 2008\03\19, p.9: *Borrowers brace for the 'financial accelerator'*; see also our blogpost at the same date) argue that:
- Bernanke's (the academic) "financial accelerator" amplifyes the credit crunch and its real impact;
- even optimists admit the implosion of shadow finance will be hurting real-economy borrowers.
- We add: realists say it already started to hurt in late 2007. See Fig. 2: the BDI, indexing world dry freight rates, pointed already in Nov.-Dec. to a slack demand of raw materials (although in 2008 it entered a further upward bubble). But demand deceleration has not yet stopped primary goods inflation, fed by future markets and de-dollarisation. Agflation and oil are introducing a stagflation component in the crisis. This restraints Central Banks from lowering interest rates too much, while the subcrime-foreclosures mechanism is still on, and house prices carry on falling - no floor (Soros). Until housing markets are imploding, no one can tell which is the real "value" of banks and shadow financial units, carrying polluted derivatives in their debt structure.



In early 2008, all the indexes show a real economy recession taking momentum and spreading from the US. With no regional decoupling: only differential effects because, e.g., of national norms and border controls of overnight money flows; real economy openness and specialisation - fragility to Chinese manufacturing (or Indian services) competition.

Fig. 2. BDI, Baltic Dry Index. Exponential average in red.
Source: Baltic Exchange. www.investmenttools.com/futures/bdi_baltic_dry_index.htm

* * *

Intro to the hot policies debate:

7 cardinal virtues, remedies for 7 capital vices.

1 States command, markets (even in Capitalisms) have no power, just implement collective missions. 2 Challenge for Rentier States: how to avoid chaos-domino, after chains of markets failure? 3 Guilty to the bar: time is ripe for a Keynesian massacre of rentiers, their managers and politicians. 4 The size of the State rescue poses a question of system transition, and awakes a sleepy Socialism (although a loss-socialising one). 5+6=7: endogenous institutions + self-referential social systems = difficult way out from a long recession, or depression.

1. **Minsky won the bet versus Chicago.** The latter did not survive to the great Milton Friedman for longer, and finally **died at dawn, Friday March 14, 2008** (on Bear Stearns' days: Section 4).
2. We entered, in mid-March this year, the **Leviathan Millennium (2008-3000 ?)**: the States will massively intervene, after a short parenthesis (just 3 decades) of anti-State free time: but **how effective will be the untrained State muscles?**
3. After March 14-6, oil into firing debates on credit&fiscal policies: **moral hazard** of rewarding again those fucking rentiers-vampires, that already gained 6-0 the early sets of the subprime match.
4. **Leaders' war.** March 29 FT (*Not yet time for a bail-out of banks*) *versus* March 22 The Economist (*Wall street's crisis*): both over-Bullish, but they diverge on policies. FT **delays** a bail-out fiscal policy, conditional upon sacking the rentiers (**"it should do so only over the dead bodies of shareholders and management"**). [6] The Eco. advocates hyper-fiscal policies **soon**, erecting floors "either in housing, or in asset-backed securities". FT objects housing prices must stop to a market floor before, otherwise you can't price securities. At 19th C The Eco., they found a Hegelian synthesis: neo-Leviathans will buy the open and the foreclosed apt.s: whatever. **Socialist times. Someone should tell Wall Street kids and their Journal: boys, sorry, but it's the 3rd Millennium.**
5. All this policy makers (hyper-)activism is and will always be part of the process (Roubini 2008b), in **a self-referential crisis system** (Niklas Luhman), where no one is sitting outside the system. **As in an ancient Myth, financial accelerators ate Bernanke himself: their own father.** The fact that on March 14-16 the Fed has stopped an immediate domino effect starting form Bears Stearns, doesn't change much the reality of the crisis: it changes its representation. **Now anti-State, free-marketeer, *laissez faire* and Reaganite narratives are dead forever, and will never resurrect.**
6. Minsky's call for an institutions-specific, even a capitalisms-specific analysis, might be the compass exploiting the fixed point of an **endogenous institutions axiom.**
7. The latter fits well with self-referential social systems theory: **this couple** is full of well known (in their proper cognitive and policy theoretical domains), important consequences for:
   - planning theory and practice (see a Sistemi Urbani's special issue, early 1980s);
   - theory and practice of finance (self and non-self) regulation;
   - social and economic policies current stalemate:
     (a) uncertainty about policies, even their basics (ends, means and their matrix).
     (b) *Pars destruens*: traditional monetary and fiscal policies are close to max entropy.
     (c) *Pars construens?* As time goes by and the meltdown burns, ways back to an effectiveness of **social** and economic policies in de(e)pre(ce)ssion urge; this blog will monitor this key field, fertilised by Minsky (Randall Wray 2007; Galbraith, Giovannoni and Russo 2007).

Martin Wolf has another eptalogue, focussing upon financial regulation.

> First, coverage. Perhaps the most obvious lesson is the dangers of regulatory arbitrage: if the rules required certain capital requirements, institutions shifted activities into off-balance-sheet vehicles; if rules operated restrictively in one jurisdiction, activities were shifted elsewhere; and if certain institutions were more tightly regulated, then activities shifted to others. Regulatory coverage must be complete. All leveraged institutions above a certain size must be inside the net.
> Second, cushions. Equity capital is the most important cushion in the financial system. Also helpful is subordinated debt. If Bear Stearns had had larger equity capital, the authorities might not have needed to

[6] Roubini's BIBLE: First fully wipe out shareholders, then fire all the senior mana-gement and have the government take over such a bankrupt institution for orderly liquidation before a penny of public money is wasted in bailing it out.

rescue it. Capital requirements must be the same across the entire financial system, against any given class of risks. But there must also be greater attention to the adequacy of that other cushion: liquidity.
Third, commitment. The originate-and-distribute model has .. a huge drawback: originators do not care sufficiently about the quality of loans they plan to offload on to others. They do not, in Warren Buffett's phrase, have "skin in the game". That makes for sloppy, if not irresponsible or even fraudulent lending. Originators should be required, therefore, to hold equity portions of securitised loans.
Fourth, cyclicality. Existing rules are pro-cyclical. Capital evaporates in bad times, as a result of write-offs, thereby forcing contraction of lending, worsening the economic slowdown and further impairing assets. Mark-to-market accounting, though inherently desirable, has a similar effect. One solution could be to differentiate between target levels of capital and a lower minimum level. Institutions that have minimum capital in bad times would only be required to aim for the higher target level over an extended period.
Fifth, clarity. Lack of information, asymmetric information and uncertainty are inherent in financial activities. These are why they are vulnerable to swings in collective mood. The transactions-orientated financial system is particularly vulnerable, because information has to flow freely across arms-length markets. So a big challenge is to generate as much clarity as is possible. One issue is the calamitous recent role of the rating agencies and the conflicts of interest under which they operate.
Sixth, complexity. Excessive complexity is a significant source of lack of clarity. It is particularly damaging, as we have seen, to the originate-and-distribute model, because markets in complex securitised products may, at times, seize up, forcing central banks to become "market makers of last resort", with all the difficulties this entails. One possibility then is to insist that all derivatives be traded on exchanges.
Seventh, compensation. On this I can do no better than quote Mr Volcker: "In the name of properly aligning incentives, there are enormous rewards for successful trades and for loan originators. The mantra of aligning incentives seems to be lost in the failure to impose symmetrical losses – or frequently any loss at all – when failures ensue." Whether regulators can do anything effective is unclear. That this is a challenge is not.
John Maynard Keynes wrote of an eighth "c". He argued that "when the capital development of a country becomes a byproduct of the activities of a casino, the job is likely to be ill done".

A state-of-the-art on Subcrime economic, social analysis and policies

The revolutionary Adam Smith, would see enlightened (regulated) and shadow global finance, privately & pirately taxing world production&trade, somehow as a new East India Co.: THE source of evils. We do not dare to walk into his footprints: we'd be persecuted as anarchists & terrorists! We are right Political Economists against the wrong, for: social justice, socialism; the enslaved and the exploited; 1.5 billion Chindian farmers enrolled in the GIRA (Globalising Industrial Reserve Army) in order to blackmail a vampirised working class. The families that are not allowed to American Dream any more, but are not yet liberated by this archetypal Myth.

Drawing on a completely false, stereotyped Scottish thinker, April 2, p.11 WSJ leader (Reform a la Glasgow) opposes the powerful Paulson- Bernanke- Frank bipartisan and moderate regulatory connection, with a vetero-modern, ideological narrative on self-regulation and self-healing (coherently, at WSJ they differentiate and do not follow the new etero-regulation fashion, the mea culpa of former self-regulationists: they are rightly still fighting socialism - exactly because they don't fall into fads):

- *REGULATION THEORY: "more power for the same regulators, who failed to use the power they already have to prevent the current crisis. ... without a hint of irony, the Treasury and financial press declare that the solution is for the Fed to become a "Supercop"." (WSJ, ibidem)*

- *SELF-REGULATION: after the securities mania, markets will de-securitize, tradeoff "efficiency" (easy rents) for better risk management, be ready for the next mania. Problem: new blood for vampires? BRICS* *working class available for ritual sacrifices? Such an antithesis, reflects a deep crisis in NY & London finance; their fight to be as less regulated as possible (with State cash), in order to position themselves in the next bubble (in the 2010s), against ever stronger Asian competition (Mumbai, Shangai and Tokyo).*

- *MARXIAN SYNTHESIS: The crisis has no determinist effect on social forces, leaving it to the political initiative and class consciousness. But at least some material processes are determined, given: less total income (smaller cake); workers weakened by hard life and looser labour markets; distributive shares already at historical lows and still worsening.*

A political process is called to make a FLOOR to mass immiserisation, an artificial barrier and counterbalance to the 1.5bn IRA (Industrial Reserve Army) based deflation enriching just Rentiers. A New Deal: bourgeois States, for once, at workers' service. The comeback of Socialist State interventionism in 2008 goes toward bailing out bankrupt banks, speculators (socialize losses). But we are at crisis start: we have years to organize the rank and file.

But the analysis is not complete, without a deeper understanding of the political and social roots of the deflationary age we live in. Given such an age frame, it is not so important whether it will be (we don't now yet) a 2008-10 deep recession, or a 2008-20 depression. The matter is that we live structurally in such an age: for at least 40-50 years, until circa 2050 (see Napoleoni 2008, p. 40-41 It. ed.: analysis of Harvard professor Richard Freeman), it will be an entire post-com(munism) and post-dotcom deflationary long wave: with a 50% global unemployment rate, only very slowly down (SA townships with such rates were an exception in the early '90s, and become an average in the late '90s); short bubbles and much longer recessions.

Chindian IRA addition to the global LF (Labour Force), increasing it suddenly from 1.46 to 2.93 bn, was one of the greatest events in history. This 2nd Great Transformation (paraphrasing Polanyi) from Real Socialisms back to Capitalisms, had amazing and chain-linked effects:

1. *a fast convergence of wages towards, and even below LF reproduction, survival costs;*

2. *the dismantling of Western, namely the US middle class, precipitating it towards debt and literally proletarian social conditions (you only have children, and get trapped into the Americam Dream illusion of buying a property for them: Napoleoni 2008, pp. 44 ff., It. ed.; Jorion 2007);*

3. *a cluster of "social innovations" in a variety of quasi-slavery, precarious and flexible conditions;*

4. *full slavery plays local, marginal roles, e.g. in N and NE Brasil. Since Chindia and ZA offer a safer way to stock an infinite GIRA - with "faux frais" an order of magnitude lower than the sunk costs of a coop. mafia-police-sheriff repression of eradicated urban slaves, in OECD megalopolies and ghettos.*

5. *From 1-2-3-4 labour markets Great Transformation: a windfall mass of many trillion $ profits, by cheap absolute surpus value (ASV), an order of magnitude bigger than ICT related RSV (Relative SV);*

6. *the immediate necessity to channel a majority of these sudden ASV profits into new financial outlets;*

7. *the supply-side push toward the last securitization related wave of so called Financial Innovations;*

8. *the inevitable burst of such an artificial and unsound bubble, stemming from an ULTRA-SLAVE over exploitation of 2 bn poors, plus another more than 2bn immiserizing workers and middle classes.*

9. *Finally, the start of an abnormal 2000-50 LW, escaping the previous Schumpeter-Perez Laws, or at least shifting the way they work. As our key references (see the Bibliography below), such as Aglietta-Berrebi, Chesnais and Loretta Napoleoni show: the current LW is different in nature and unique in history, coming just after the 2nd Great Transformation. It carries a deflationary burden and paradox:*

10. On the one hand, some FEMINISM-SOCIALISM MIX IS STRICTLY NECESSARY. Given our social knowledge frontier, it is almost the only way out the Sapiens has now, in order to cope with a suddenly doubled capacity, without falling into repeated environmental, health, military and social disaster traps.

11. *On the other hand, the combination of reactionary factors in an apparently solid Rentiers Ancient Règimes (in fact, full of contradictions - we only can't see yet, how they might converge towards a Revolution) weakens those oppressed social forces, carriers of a Feminist-and-Socialist alternative.*

12. *Hypermodern dual ethics, not so different from the one of the Dahomey's king in slave trade times (Polanyi), can be interpreted by Political Economy in a Marxian frame (relative\absolute surplus value):*

- on the one hand: we are ethical, well behaved, and extract relative surplus value via "clean" ICTs; if our wages do not precipitate, we might be proud driving a Toyota hybrid, feeling ecologically responsible.

- *On Loretta Napoleoni's dark side of globalisation, we play the blackmail, mafia, pollution, rape, torture and total war game; and pay for a slave 10% of its value in ancient Rome: deflationary fundamentals.*

PROGNOSIS.

Our diagnosis was univocal and Keynesian. Let us recall and elaborate it:

a) a drastic improvement of world welfare, an intrinsic ICTs potential, went bust by Lewis-effects
b) the 1987-2007 *Rentiers' glorious years*, by increasing the rates of SV extraction, and its appropriation by Rentiers (Fig.3), dropped most world economies into a deflationary régime
c) the global economy is locked in a longrun demand deficit hysteresis and liquidity trap
d) monetary-credit policies are obviusly just useless: only competition and industrial, labour market and welfare, income, wealth and fiscal policies matter
e) policy implication: the world badly needs a giant redistribution of income and wealth, from élites to impoverished masses - a Keynes-Kalecki and Ricardo-Pasinetti classic
f) complication: political systems do not allow such a **global Keynesian New Deal.**
g) **Morale: a political hysteresis (PostReaganism: just a follow up of "doc" Reaganism) in leading OECD countries, is blocking the road out of a global economic hysteresis.**
h) The March'08 Bear Steans bailout, although abandoning - only for emergency reasons - the Reaganite narrative (Section 4), marks no paradigm change in a Marx-Kalecki direction. It would be odd such a change from a George W. Bush lame duck! The problem is whether an Obama Presidency might deliver it - not granted, it will depend on class struggle.
i) **Red solution: the only remedy is an effective political and class struggle, such as to impose the necessary value redistribution on the barricades - but it is a long way ...**
j) **Yellow Solution. If class struggle will not resurrect and be effective, an emergent Chinese Empire will take the world lead (late 1920s? After 20 years of stagnation), likely through a WW3. As in the 1930s, MILITARY KEYNESISM will be the driver.**
k) **The world is AS IF voting red or yellow: the behaviour of individuals and classes, will favour one or the other scenario** (we simplified things, with just two basic scenarios).

It follows that either THIS or a NEXT (early 2010s) recession, will degenerate - *ceteris paribus* **- into a necessary (systemic) 2010s long-run depression. In any case:**

a) **given the current political power and policies stalemate,**
b) **therefore subject to PURELY POLITICAL CONDITIONS AND CONSTRAINTS: an Obama New Deal, we are calling for in deeprecession blog, might alter those basic conditions,**
c) **the 2010s will pass to history like the 1880s and 1930s: the only basic uncertainty (besides point b) concerns BRICS countries' growth: from 10%, down to what?**

In an average scenario (NO Obama New Deal, and political hysteresis persisting):

1. BRICS and a few other emergent coutries (e.g. Vietnam) will be at the upper side of the growth rates variance in the 2010s depression, closer to 5% than 0.
2. In the rest of the world, there will be: **0 growth, slow innovations diffusion, high financial speculation, stagflation, and an energy crisis in a worsening global climate heating trend;** depression will slowdown the **energy transition** after the global Humboldt peak: meaning that we have already exhausted >50% of te world total hydrocarbures stock.

More detailed outcomes cannot be forecasted, by def., since they depend on so many components and interacting sub-systems, allowing only to guess **strategic scenarios**. Sub-systems such as: a) subcrime crisis momentum; b) primary and secondary class struggles affecting policies; c) entropy of obsolete policies; d) reaction of financial systems to more regulation; e) complex social systems evolution; f) bio-political systems. Let us consider the latter. **In a democracy: Bernanke, Trichet, rating agencies and finance CEOs would be all in jail, for their subcrimes**; systems would evolve under a new leadership, carrying new interests and ideologies, and post-Reaganism would take off fast. The Obama phenomenon is just an half-way. Bernanke and the CEOs (some head falling here and there: but markets rule, not Justice) being still in circulation, without creative destruction, there is no change in the élite, so people believe in one man ... **As subcriminals impunity testifies, we do not live in democracies (no one is left), but a liberal (India, S. Africa, West) to tyrannic (Africa, China, Russia) gamma of ThanatoSystems** (Esposito, Foucault). Morevoer, not just finance but even economics-and-politics are melting down. Take two world extremes:

a) on Italian South Tirrenic coast and hinterland (from Naples to Palermo, the two Borbonic capital cities), there is **a LAB of 0-State governance**: Nation State gave off; **governance by camorras (allied with Chinese Triads), ndrangheta and italo-american mafia;** economy fully globalised: here comes low cost subcontracted made-in-Italy (see: Angelina Jolie and the *sarto*, in Gomorra's book and film).
b) on Chinese coasts and rural hinterlands: **a Communist tyranny is delegated, by global capitalisms, to manage the larger section of the GIRA** (Globalised Industrial Reserve Army - IRA being a Marxian notion to correct Malthusianism), i.e. the major cause of a degeneration of the ICT long wave into a deflationary age (what we label the *2nd Great Transformation*, in section 1). Reaganism was already immiserising the world, but instituting the GIRA was a killer application of Reaganism-after-Reagan. The killed global economy will need decades before metabolising it, and sort out of a deflation régime.

In fact, economic and social policies must be framed within a **Political Long Wave**, exactly as we framed the ST subcrime recession, above, within a socio-economic LW: the ICT one that, for lack of redistribution and societal evolution, degenerated into an Epoch of Deflation. The LT political scenario is no less gloomy:

- according to political scientists, democracies are in a stallmate and systemic crisis;
- political philosophers (Esposito, Foucault) adds that democracy might have already died in the 1920s;
- since then, the **modern Epoch of Technique entered a contemporary Age of BioPolitics**: politics now DIRECTLY deals with, commands biological life, and the life cycles of social artifacts.
- Unfortunately, BioPolitics has a bad habit, it quickly degenerates into ThanatoPolitics:
    - it happened already with Lenin, Stalin, Mao, Pol Pot - Hitler, Castelo Branco, Pinochet;
    - Reaganism hyper-concentrated media-power-wealth in the global élite of a handful; after that, until new forces emerge (Obama?), Thanato-post-democracies will be resilient to class struggle.

3. *Minsky's FIH - Financial Instability Hypothesis*

Minsky annual conferences, whose multimedia materials are delivered by the Levy Institute (www.levy.org), testify how much his approach is well alive, his reception wide. And the fact that - like the greatest artists -, his fame reached, from economists and expert circles, even the layman post mortem. A study of Conference proceedings is strongly recommended, together with Minsky's works and the above bibliography. Here we will just read and shortly comment his later, 1992-93 (a Levy WP, then chapter of a HB) resumé of his most well known corpus, that he had elaborated and revised much earlier.

BUBBLES form http://www.ft.com/cms/s/0/5c7129e6-22a8-11dd-93a9-000077b07658.html

The Hypothesis - he starts the paper saying - is both a theory, and a series of empirical, i.e. falsifiable propositions. As a theory, the roots are in Keynes, and Schumpeter's view of money and finance.
The theoretical argument assumes a precise, historically-institutionally given, and well defined society (no "Robinsonade" here: cfr. Marx versus Ricardo). The capital development of an industrially advanced, financially complex capitalist economy (Minsky quotes Keynes again here, but Marx would not be out of place), requires exchanging present money (buying resources for production) for future money (profits: here in the Political Economy sense, excl. entitlements to their redistribution).

> As a result of the process by which investment is financed, the control over items in the capital stock by producing units is financed by liabilities -- these are commitments to pay money at dates specified or as conditions arise (p. 2: we refer to pages in the May 1992 WP).

This is managed through financing supplied by a credit structure, that was well defined by Keynes: Minsky quotes here a long passage from p.151 of the 1971 ed. of his *Essays on Persuasion*.

> This Keynes "veil of money" is different from the Quantity Theory of money "veil of money". (...)
> In a Keynes "veil of money" world, the flow of money to firms is a response to expectations of future profits, and the flow of money from firms is financed by profits that are realized. (p.3)

The "realized (vs expected) profits", imply a cash flow validation, or invalidation, of a given liability structure of businesses, according to performances and their drivers. Here comes in Minsky an institutionalist novelty, compared either to a Ricardo- Sraffa model or a Wicksell -neoAustrian one: he refers to the entire financial history of Merchant Capitalisms across centuries and trade flows, but he also projects this to modernity. The "several layers" that follow are, in a sense, a synchronic modelisation of that evolution:

> Thus, in a capitalist economy the past, the present, and the future are linked not only by capital assets and labor force characteristics but also by financial relations. The key financial relationships link the creation and the ownership of capital assets to the structure of financial relations and changes in this structure. Institutional complexity may result in several layers of intermediation

> between the ultimate owners of the communities' wealth and the units that control and operate the communities' wealth. (p. 4)

When capitalist economies enter the modern world, new phenomena add up to this basic businessman-banker couple: households borrow as well; governments carry on borrowing at a large scale, but also emerge at the other side of the table as refinancing agents; finance internationalises systematically.

> In particular, the much greater participation of national governments in assuring that finance does not degenerate as in the 1929-1933 period means that the down side vulnerability of aggregate profit flows has been much diminished. However, the same interventions may well induce a greater degree of upside (i.e. inflationary) bias to the economy. (p. 5)

As we will discuss later, even Minsky's stylisation (not necessarily his pure and core theory, the analytical part) must be historically framed, as - you see - he is careful and precise in relating theory to history (no Robinsonade). In between the postwar economic miracles "Keynesian Glorious 30s" (drawing on unlimited educated and trained labour force supply, unexploited knowledge pools), and the microelectronics-driven "Schumpeterian Glorious 20s", most world economies fall into resources availability, dynamic scarcity boundaries, and oligopolistic-distributive stagflation traps. Macroeconomic régimes become inflationary in the 70s-80s: we will see, later on, that he draws "inflationary" lemmas from his theorems, although what we most need now, are the deflationary ones.
The paper now adds a **second building block to the theory**, after the **first one (Keynes-Schumpeter credit to the producing-entrepreneurial unit,** and General Theory basics). A new feedback loop furtherly specifies the original, radically anti-marginalistic Keynes' view of investments:

> The financial instability hypothesis incorporates the Kalecki (1965) -Levy (1983) view of profits, in which the structure of aggregate demand determines profits. (...) Expectations of profits depend upon investment in the future, and realized profits are determined by investment: this, whether or not liabilities are validated depends upon investment. Investment takes place now because businessmen and their bankers expect investment to take place in the future. (pp. 5-6)

The outcome is a cumulative, virtuous\vicious circle of "investments by means of investments", a powerful tool for cyclical and long wave systems behaviour.
A **third building block**, is a home made value added: it is an impressive, powerful stylisation and view of **contemporary financial innovation, the drive towards shadow financial systems.**
Basically, you apply Schumpeter even back to the "banker" himself (all intermediaries in finance). FIH theory takes banking seriously as a profit seeking activity: therefore finance agents will strive to innovate in the assets they acquire and the liabilities they market. Now an original taxonomy is introduced:

> Three distinct income-debt relations for economic units which are labeled as hedge, speculative, and Ponzi finance, can be identified. (p. 6)

1) **Hedge** financing units fulfill ALL payment obligations by their cash flows, due to a high equity financing/ total liabilities ratio.
2) **Speculative** ones (indebted governments, most banks and corporations) cannot repay the principle out of cash flows, and issue new debts to meet maturing debts.
3) **Ponzi** units cannot even pay interest due on outstanding debts by cash flows: they sell assets or borrow (note: now they can also cash from derivatives and securities).

Frankly, we can't see why this income\debt taxonomy should be obsolete by now, as critics argue. The continuation of the **same trajectory towards ever more leveraged financial units** doesn't change the substance; it adds further degrees of intermediation, and eventually leads to a new post-Minsky class of**:**

4) **Hyper-Ponzi** (our def.**)**. Unprecedented low equity ratios lead to sell assets - borrow - or issue derivatives: both to face payments, and to prevent liquidity crises and bank

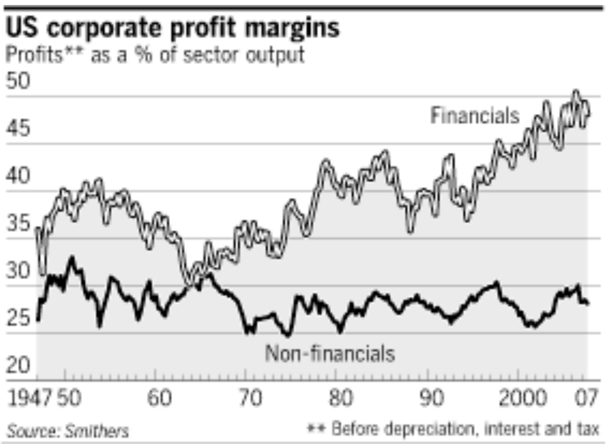
runs, when securitization castles (a way to defer payments indefinitely, by making liquid the illiquid) need some ordinary maintenance, extra-ordinary repair, or just collapse. [7]

The paper ends up with an axiomatic structure of falsifiable, and linked propositions:
THEOREM 1. "The economy has financial regimes under which it is stable, and financial regimes in which it is unstable."
THEOREM 2. "Over periods of prolonged prosperity, the economy transits from financial relations that make for a stable system to financial relations that make for an unstable system".
LEMMA 2.1. In such prolonged periods, the finance structure moves from type 1 to 2&3.
LEMMA 2.2. In an inflationary economy with many type-2 units, if policy makers apply tight monetary constraints, "speculative units will become Ponzi units and the net worth of previously Ponzi units will quickly evaporate" (p. 8). [8] A post-Minsky udate is:
LEMMA 2.3 - Debt deflation (Wry 2007). In a deflationary economy with many type 2&3 units, when policy makers do not apply tight monetary constraints and regulations, a financial bubble will shift the spectrum towards types 3&4, until the bubble evaporates.

No need to underline how powerful are the "Lemmas". Minsky advances now a quasi-Theorem 3, characterising a Schumpeter -Kalecki theory of endogenous business cycles:

PROPOSITION. The FIH does not rely upon exogenous shocks in order to generate business cycles. They are compounded of (i) the internal system dynamics, and (ii) the systems of interventions and regulations that are designed to keep the economy operating within some boundaries (in Section 2, we re-read point (ii) in the light of systems theory).

Theorem 2 "prolonged prosperity" creates a long run link (postwar Janossy's economic miracles and the *30 glorieuses*; current Kondratiev LW: the last *20 glorieuses*): through Schumpeter, and Ricardo-Marx's forces delaying profits entropy. Perez (2002), Aglietta-Berrebi (2007) and Chesnais (2008) analyse the long run.



Consider Fig. 3: increasing amount of profits appropriated by finance. **The trend starts in the early 1960s, never stops and accelerates in 1987-2007.** Profit shares have no trend in non-financials: in finance they move up **from 30% to 50%.** There are two variations around such a trend, redefining US (and UK) capitalism as purely rentier: 1) a 1977-84 bubble; 2) opened by the Asian crisis: a 1987-94 (exc. 1991) flattening, cured by the New Economy Clinton- Greenspan's bubble (1990s 2nd half). Last 20: *Rentiers' Glorious years*, margins 12 points and 33% up (36 to 48%), while **wages lost 9% of GNP in all OECD countries.**

Fig. 3. US finance appropriation of world profits, 1947-2007

[7] At de(e)pre(ce)ssion we are basically microeconomists and innovation diffusion scholars, on finance we are amateurs: we introduce a new class and a lemma, only to mark and make a point (see the discussion with Davidson above, in the previous Section), waiting for support from field experts and the Levy Institute.

[8] Please note the **inflationary** condition. If we follow Aglietta-Berrebi and Chesnais' analysis, we live now in a **deflationary**, low cost world. Therefore we need a post-Minsky "Lemma 2.3", specifying the financial system dynamics under these new conditions. A work-in-progress proposal follows.

Reprinted from T. Wolf's blog, FT [9]

As Papadimitrou and Wry (Levy Institute) say, the late Minsky was elaborating new policies which "would have to "constrain" instability through creation of institutional "ceilings and floors" while at the same time they would have to address the behavioral changes induced by reduction of instability." Never before such proposals came to the fore as in the 2007-08 Subcrime crisis, following the 1987 Mother Asian crisis (Aglietta and Berrebi ch.1) and the dotcom bubble.
The WSJ refers that financial research at Princeton, set up by Bernanke before the Fed, is also following Minsky's steps. The ongoing research on herd behaviour modelling in heterodox finance does the same; even orthodox finance is obliged to redefine its basics.
A purely Minskyan policy debate on bubbles has exploded in the specialised media in May 2008 (e.g., see Krishna Guha - FT, May 13, 15 and 16), due to rumours that the Fed is about to abandon laissez faire axioms on commodity, credit, housing or stock bubbles, plus an explicit intervention by Prof. Mishkin (very close to Bernanke) before leaving the Fed. All this is commented skeptically by Doug Noland at PrudentBear.com, on May 16.
According to a FT illuminating inquiry (F. Guerrera and B. White, May 18), previuos to the Lehman Brothers' crisis in June ($2.8 bn loss in 08Q2), **a wave of banks concentrations** is imminent (the paper reports many speculations on who might buy whom, but they are still uncertain in June 2008: **we only know already who are the final subcrime winners, namely Bank of America, originally founded by an italo-american, and even more JP Morgan, the Bear Stearns predator)** and it will be irreversible, in the US: the financial system much more hardly hit than anyone else by the subcrime crisis.
The EU system was also fully involved in the speculation, then shaked by crisis: UBS (no.1 loser in Europe in absolute terms, second only to Merrill Lynch and Citigroup worldwide), Hsbc, CA and Credit Suisse.
A basic medium term, after-crisis scenario is the **disappearance of US pure financial banks, that will be preys, or possibly (Goldman Sachs) predators** of commercial and more diversified units.
Another expected irreversibility regards **financial technical change**: although opinions are disparate and secrecy or uncertainty even more radical on this issue, there is some relative consensus about a no-return to over-securitisation, at least not of the same kind (not a repetitive re-securitisation wave).
But this might have quite opposite analytical and policy implications (see also our discussion, paper by paper, in the notes to Section 5 - references).
Provided you believe that the FIH Model basically applies to the subcrime cycle, or not:
1. IF (the answer is) YES, then:
    1.1 The 2010s financial innovation trajectory might confirm Minsky Model's predictions.
    1.2 Or, on the contrary, it might depart from the Model, e.g. by changing the business models, learning from the catastrophe and socialising the risks in quite new, inventive ways.
2. If the answer is NO, the securitisation cluster already departed from a FIH world, then:
    2.1 Either the 2010s trajectory might return to a Minsky Model: learning by failing.
    2.2 Or it improves securitisation and abandons Minsky's worlds, perhaps forever.

[9] The two series do not add up to 100%, since they are not % on total profits, but gross margins over Value Added.

4. *Helicopter Ben and subcrime bio-economics*

Homeownership is fundamental part of a sense of belonging to a country. (Shiller 2008)

A PREY , A PREDATOR

Real people behind capitalist roles
Thomas Montag (laughing at)
Glenda Ortiz.

Glenda, as many preys, paid $3000 per month, out of $4200 family earnings: to get NOTHING.

Thomas' Human Capital has a $100 million market value (at 5%, it yields $400,000 per month: 100 times Ortiz family earnings, 200 wages).

Thomas Montag

WSJ

Merrill Pays Celestial Sum For Street Star By SUSANNE CRAIG. May 3, 2008; Page B1

Mr. Montag, 51 years old, will receive a payout of **$39.4 million** for 2008. On top of that, Merrill Lynch will buy Mr. Montag out of holdings in his previous employer, Goldman Sachs Group Inc. (est. cost: at least **$50 million**). When Mr. Montag starts Aug. 4, he also will be paid an **annual salary of $600,000**. A compensation package quite normal for a President in a Wall Street major, according to the WSJ. Moreover, Montag is expected to payoff Merrill:

- he ran Goldman's trading operations successfully across subcrime turmoil, until he left in late 2007;
- Merrill won a long and complex auction to hire him;
- he will be Head of Global Sales and Trade;
- here is the full text of his contract.

2008\03\22 Easter's eve of suffering, no hope left. Not even wrath. Now **a model of inquiry journalism.** It also has a touch of feminine style, that makes it a **rare pearl.**

"She no longer dreams of owning a home in America" - a home allowing her to see the daughter she left in Honduras 9 years ago!

Brigid Schulte (WP) went to talk with Glenda Ortiz in Virginia and was capable of transforming her story into a Classic. **Comments** to her paper: scarce sympathy towards the victim. But MorganaLeFay, an Attorney, explains how subcriminals acted on a bubble 4ever hypothesis: "What will actually happen is that the guilty [seller] will go free and you and I will eventually bail out the bank." http://enzofabioarcangeli.wordpress.com/2008/03/22/let-us-pursue-the-rentiers-throwing-families-into-the-street/

The bio-politics of sub-crime in a paradigmatic case.

Washington Post: 'My House. My Dream. It Was All an Illusion'

Latina's Loss Epitomizes Mortgage Crisis. *Glenda, an immigrant from Honduras into Alexandria, Virginia, was forced out of her home. When she came to the US 9 years ago, she had to leave her little daughter home. Her American Dream of a new home, meant re-uniting with her. It's all over.* Looking back, Glenda Ortiz can see she did everything wrong when she bought her house in 2005.

In fact, to understand the housing crisis that has swept the country, one need only listen to the tale of the Ortiz family. By Brigid Schulte.

AND NOW TO THE KEY POINT: IN MID MARCH 2008

Chicago, Reaganism and the Free Market were thrown out of History. Speedy ("Helicopter") Ben with Bush Adm. (Paulson) forge a massive State intervention:

- **W\E 15\16.** Fed emergency credit lines even for non-commercial banks; in exchange: some Fed CTRL now, new regulation to follow in a 2009 law?
- **Night 13\14**. Bear Stearns bailout anticipates a Wall St. crack and financial banks domino. If Helicopter Ben's wall resists, **no domino**: a smooth banks M&A wave.

Week before Easter, one of the most dramatic ones in the US economic history:

http://enzofabioarcangeli.wordpress.com/2008/03/15/bear-stearns-and-bearer-markets

our longest blogpost until now, tells you the salients of what happened and what we were understanding in the making of **that turnaround of History. From milestone, epoch-making March 14 to the 19th,** day by day. Holy Capitalism died and resurrected, with a week lead on JC.

2008\03\20 **Rev. Jackson on Government Help in Financial and Subcrime Crisis**

CHICAGO (March 20, 2008) – The federal gov. needs to step in to relieve the current economic crisis, said Rev. Jesse Jackson at Thursday's 10th annual LaSalle Street Project Symposium. Home-owners need help to save their homes through loans restructuring. According to Martin Gruenberg of the FDIC, last year 1.5 million homes were put into foreclosure; 1 million of them had subprime mortgages. Of those purchases, 54% of the borrowers were African-American, 47% Latino and 18% white. "The financial institutions who created the crisis are being bailed out, while the people, who are the victims, are being left behind. A **sub-crime** crisis is driving the entire economy ... into recession. (..) the mortgage crisis has resulted in loss of homes, loss of jobs, and the spillover effect is devastating entire cities, counties, and states that rely on property tax revenue to provide services to their communities. We need a comprehensive government plan that stops foreclosures and restructures loans for homeowners; not one that just provides bailouts for the firms that created the crisis and are now facing the consequences of their irresponsible, unethical and, in many cases, illegal practices," he concluded (we took "**subCrime**" from here).

2008\03\17 **Monday (Christians' Holy week)**

Wall Street awakes after Fed's blitz

Day after a 1931-32 nightmare weekend: the Fed stopping the run on financial banks, an inch before a catastrophic banking crisis. Fed bailed out Bear Stern through JP Morgan Chase, and gone back (first time since then) to 1930s norms, allowing direct overnight help even to a list of top purely financial banks. [10] Prof. Roubini's analysis today (he was **the only one to forecast beforehand every detail of the drama**): A Generalized Run on the Shadow Financial System; policy implications follow:

- The Worst Financial Crisis Since the Great Depression is Getting Worse…and the Need for Radical Policy Solutions to the Crisis. March 19: global financial markets are experiencing their worst financial crisis since the Great Depression. And in spite of desperate and radical actions by the Fed this crisis is getting worse.
- Should Securities Firms be Regulated and Supervised like Banks? March 23.

Daniel Acker/Bloomberg News: New York Stock Exchange on day after: March 17

[10] FT, Thursday 08\03\20, pp. 2, 16: Morgan Stanley, Goldman Sachs and Lehman Brothers [3/4 left US financial banks, exc. Merrill Lynch] all said yesterday they were planning to borrow money from the Fed after a special lending window for primary dealers opened on Sunday. They said there should be no 'stigma' attached to using the facility. [Stigma = **trust crisis** and higher prob. of a bank run by client hedge funds; cfr. Minsky 1993, discussed here in Section 3]

2008\03\16 Christians' Palm Sunday. WP: http://www.washingtonpost.com/wp-dyn/content/article/2008/03/15/AR2008031502404.html

Suffering in Silence Over Foreclosure

In Upscale Md. Subdivision, Few Know the Troubles Neighbors Face. By Ovetta Wiggins

*From Perrywood (a place for **affluent** African Americans, Black Bobos). Nonetheless:*

African American homeowners and other minorities are more likely than non-Hispanic white borrowers to be saddled with the subcrime loans and adjustable-rate mortgages that put them at greater risk of losing their homes. **Black women** were five times more likely than white men to receive subcrime loans in 2006, a report by the Urban League says.

2008\03\14, Friday. March 14 "Liberation day" from freemarketeer, neocon bullshit. **Dramatic dawn at NY**:

At about 5 a.m. Friday, regulators including NY Fed Chief Timothy Geithner, Federal Reserve Chairman **Ben Bernanke**, Treasury Secretary **Henry Paulson** and the Treasury under secretary domestic finance, Robert Steel, convened by conference call. At the end of the call at 7 a.m., the Fed had decided it would offer the [Bear Stearns rescue] loan.

May 27-9: the WSJ telling the whole story of the Fed bailout

THE FALL OF BEAR STEARNS by Kate Kelly

1. **Lost Opportunities Haunt Last Days of Bear Stearns**

Executives Bickered Over Raising Cash, Cutting Mortgages

2. **Fear, Rumors Touched Off Fatal Run on Bear Stearns**

Executives Swung From Hope To Despair in the Space of a Week

3. **Deal or No Deal?** The Fed pressured Bear Stearns to sell itself, but a misstep in the hastily drawn agreement nearly scuttled the deal.
4. BUT her story is challenged as **incomplete** by dealbreaker.com's John Carney:

The Run On Bear Started Earlier Than You Think

Posted by John Carney, May 28, 2008, 4:30pm

Kate Kelly's Pulitzer-fodder describes how Pimco, the most famous bond fund in the world, told Bear Stearns on December 21st, 2007 that it wanted to immediately unwind several billion dollars of trades it had agreed to with Bear. But what she doesn't say is that Pimco wasn't alone. Other customers also began fleeing. And, in many ways, the December actions by Bear's customers and counter-parties eerily foreshadowed its final days.

Bear Stearns Buyout videos, The WSJ oL, **april 3. Behind the Senate: a) Helycopter Ben defends Fe'ds action; b) BS CEO testifies: A self-fulfilling prophecy.**

T. Wolf, March 25 FT: **The rescue of Bear Stearns marks liberalisation's limit**. Remember Friday March 14, 2008: it was **the day the global free- market capitalism dream ended** - BY FED DECISION, on Bush behalf.

There will be far greater regulation of complex (shadow) financial institutions. Joseph Ackermann, CEO of Deutsche Bank: "I no longer believe in the market's self-healing power". Deregulation has reached its limits. Finance is not so Prigoginian (self- healing, organising) as supposed.

Bear Stearns shares falling today, after the overnight rescue (*www.aleblog.com* right picture, à la Kandinsky) More on March 14-19 facts: http://enzofabioarcangeli.wordpress.com/2008/03/15/bear-stearns-and-bearer-markets/

2008\02\05-08

Roubini's (2008 a) scenario on a "shadow financial system" collapse comes out on his blog, the macro-economic hub no.1; in realtime (via email, blog links, echos on the media) he becomes a persuasion **vehicle** affecting scenarios, financial **vehicles'** evaluations and herd behaviours. **Early March: Global Wall Streets (from NY to HK) sentiments move fast from Summertime MM1 (Minsky Moment) to Winter MM2 (Minsky Meltdown)**: higher order expectations (I expect you expect that I ...) quickly converge (cutting short the chain, in order to reduce choice complexity and react faster) [11] toward Bearish feelings. As Minsky's pupil Kindleberger says, his Maestro had a Cassandra reputation; Roubini played such a role in Feb. '08: everyone believed he had caught fundamentals, and adjusted expectations. 40 days later: Bear Stearns empty safes, Lehman Brothers ones saved by the Fed. FT has noted this difference of treatment between the two weaker banks, a moral hazard within the hazard, arguing: Bear Stearns bosses were such autocrats (playing card tournaments, every time they should have been at their place of command), that they deserved a kick off. Moral hazard became rage, when JP Morgan Chase made a gift (with OUR, taxpayer's money) to Bear owners, revising the buy price from $2 to $10. In June '08, M.H. re-emerges in a TOO NICE AND SOFT speculation on **Lehman**, aware the Fed will finally intervene. Please note how ICTs affect the financial meltdown mechanism:

1) automation reinforcement of **herd behaviour at floor level:** portfolio management tools accelerate expectations and sell\buy imitation - convergence, from the start of this Kondratiev-Minsky longwave in the 1980s, then more ad more.

   It is a concomitance of the stylised facts focussed by the different models of C. Perez and F. Chesnais (Schumpeter and Marx): on the one hand, the microprocessors revolution affects financial operations; on the other hand, over-accumulation profits look for new circuits, markets and outlets.

2) **persuasion in the back office and think tanks:** bankers, rentiers know Keynes, Schumpeter, Minsky and Roubini; on media, web and ICT tools, ideas circulate much faster than in the past. Economic paradigms affect the cultural environment in which expectations, notions, even the wording of facts and the attached feelings are embedded: *chaos, Roubini's meltdown, turmoil, Prigogine-Kauffman's self-organisation, self-reinforcing path far from equilibrium (assuming positive feedbacks), commmon language catastrophe, Minsky Moment (a math. Thom's catastrophe), persisting dis-equilibrium (fundamentals are no more attractors of system dynamics), temporary dis-equilibrium, random walk, problems to be fixed, smoothing perturbation (assuming negative feedbacks), minor disturbance to an orderly equilibium world, obscillation from\around fundamentals (e.g. a limit cycle), Walras' tatonnements.*

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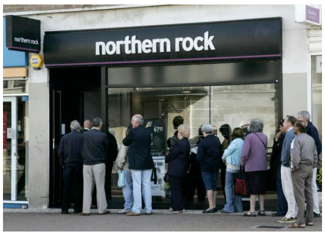
[11] A colleague from Capua has Experimental Economics findings on this. Financial players (that we label rentiers, following Keynes) do imitate their most successful colleagues, in order to decide where to cut short the theoretically infinite, like in a double mirror, expectations chain (pure game theoreticians often assume unrealistically the infinite chain). If last lotteries winners (the herd leaders) adopt a three-levels routine, the agents frequency distribution will be modal on 3, and so on so forth: the first successful innovator, will shift the herd toward either 2 or 4 levels.

3) THE TWO LEVELS INTERACT. **Paul Krugman** [12] or **Mark Wolf** (1st tier "hubs" on the web) must be convinced by new evidence. When they are: if they sing the same song, a fast (on social networks, academic "invisible colleges") bandwagon is on, even on 2nd-3rd order hubs re-broadcasting the message.

A rough estimate: Roubini's [13] scenario took circa one month to make a persuasion bandwagon among CFOs, economists and experts; then, in a week time it was herd-bandwagon on market floors. Bear Stearns was blown out by hedge fund clients in 2 days (on pre-holy week Wednesday-Thursday: SEC said everything was OK on Tuesday). Rite of Spring: one is killed, to buy time for everybody. Girard VS optimists: ritual cycles are repetitive. Seasonal cycles. Next? A Rite of Summer. [14] In a seasonal rhythm of agricultural-pastoral rites - a first **Rite of Autumn** 2007: the blood of **a commercial bank**, lending to families and people. It took **5 months** to find a way out vs **5 days** for Holy Bear Stearns sanctification. Gordon Brown, people discovered, was delaying on purpose an intervention, just in case of anticipatd general elections in Autumn 2007.



In the late Reagan Era (he is still into), no bank nationalising in pre-election times.

Summer 2008: something around the two potential preys, weaker US financial banks: **Lehman Brothers** (at pain from June 2 for its $2.8bn 08Q2 losses: down from $82 per share 1 year before, to below $30), and **Merrill Lynch.** They will not survive the subcrime crisis as independent units: definitely not Lehman.

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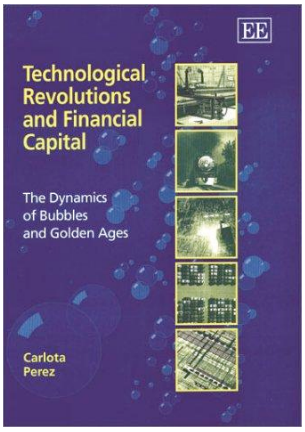
[12] Recent breakthroughs in the authoritative, reference and trusted Krugman's blog, among others were:
1) adopting the comparative view that, this time, two bubbles are downsizing together (the shadow finance and the housing-mortgages one, hence the **recession** will likely be deeper and longer).
2) At Bear Stearns crisis opening, the timely warning (while paranoia and deep worry transpire from the Fed's weekend revolution) that, in the previous recession-into-**depression** mutation, it was not 1929, but the '31-'32 banking crisis "domino" the point of transition, like in a mathematical catastrophe model.
We owe first of all to his leadership effect, as a liberal and a scholar, the choice to start de(e)pre(ce)ssion.

[13] Prof. Roubini legitimately revindicated, on Bear Stearn's Liberation Day, his (not self-fulfilling, but influential) prophecy: **Step 9 of the Financial Meltdown: "one or two large and systemically important broker dealers" will "go belly up"**. Nouriel Roubini | Mar 14, 2008.
"In my February 5th piece on 12 Steps to a Financial Disaster I predicted - as Step 9 of the meltdown - that "one or two large and systemically important broker dealers" will "go belly up" and that other members of the "shadow financial system" - i.e. non-bank financial institutions that look like banks in terms of liquidity/rollover risk - will also go bankrupt."

[14] FT's (March 20, p.30) Gillian Tett on ritual sacrifice: the **Holy Bear**. Ms Tett, top FT staff and anthropologist, makes a good point. Reinforced by René Girard's model (she doesn't quote): when over-imitation, mimetism bring a (business) community to collapse, someone is found guilty. After sacrifice, he\she's sanctified. But after a while, the mimetic cycle comes back, since the ritual did not address structural factors. This anthropological paradigm highlights the RITUAL DIMENSION of financial manias (Chancellor 1999). **Who's the Easter Lamb?** Roubini's Hitchcock noir:

Is Bear Stearns the 'Sacrificial Lamb' or is the Fed?

5. A bibliography on subcrime and other crises



5.1 TOP 13 readings

1. Michel Aglietta and Laurent Berrebi (2007), Désordres dans le capitalisme mondiale. Paris: Odile Jacob. [15] Definitive interpretation of our deflationary age.
2. Karl Beitel (2008), The Subprime Debacle. Monthly Review, May. Although he does not quote the French school (Aglietta and Chesnais), his analysis converges: "other crises await, and the ability of the central bank indefinitely to defer the underlying problem of overaccumulation is far from guaranteed".
3. François Chesnais (2008, Jan.), Fin d'un cycle. Sur la portée et le cheminement de la crise financière. Carré Rouge - La Brèche, 1: 17-31. [16] Aglietta's empirics and thesis enriched in a Marxian frame.
4. Francisco Guerrera and Ben White (2008, May 18), Shrunken Street: Financial groups eye potential predators and prey. Financial Times. A concentration wave.
5. Paul Jorion (2007), Vers la crise du capitalisme américain? Paris: La Découverte - MAUSS. [17] A view of the subcrime scene à la Hitchcock.
6. Hyman P. Minsky (1982), The Financial Instability Hypothesis: Capitalist Processes and the Behaviour of the Economy, pp. 13-4 in: Charles P. Kindleberger and Jean-Pierre Laffargue eds., Financial Crises. Cambridge: Cambridge University Press.
7. Hyman P. Minsky (1993), The Financial Instability Hypothesis. In: Philip Arestis and Malcolm Sawyer eds., Handbook of Radical Political

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15 " ... les transformations gigantesques du capitalisme depuis la crise asiatique. D'une part, l'économie est passée d'un régime inflationniste à un régime déflationniste. D'autre parte, la valeur actionnariale s'est substituée à la valeur ajoutée dans la régulation des économies occidentales. Ce livre montre pourquoi cette évolution n'est pas soutenable à long terme et décrit les scénarios possible d'ajustement."
Aglietta was the inventor of the French regulation school, with his classic on Fordism. This book makes a perfect companion with Chesnais: together, they elaborate a full theoretical and empricial frame for the defationary LW and subcrime recession. As we explain in Section 2, AGflation and the *casino economy* speculation on oil, by adding a speculative inflation dimension to the subcrime recession, do not change the LR frame: they only accelerate the SR crisis, and its LR hysteresis impact.

16 English and Italian translations forthcoming - the latter on R magazine, Centro Livio Maitan, Roma.
L'hypothèse défendue dans cet article est que l'économie mondiale se dirige vers une crise d'une certaine importance qui porte la marque du moment où elle a surgi et des contradictions propres à ce dernier.
C'est sous cet angle qu'est examiné le cheminement de la crise financière qui a éclaté dans le secteur des prêts hypothécaires aux Etats-Unis, début août 2007. Cette crise intervient au moment où les instruments mis en œuvre par les banques centrales ont commencé à montrer leurs limites, à force d'avoir été utilisés de façon répétée depuis vingt ans.

17 A timely (**before** the crisis), complete and highly pedagogical introduction to the housing&finance meltdown. KEY MESSAGE: the right mix of the 2 disasters; stock exchange is just 20% of new wealth, while the 60% is incorporated into houses and properties. Suggested as READING NO.1.

Economy. Aldershot: Edward Elgar. Cycle theory: see Section 3 above. http://www.levy.org/pubs/wp74.pdf

8. Loretta Napoleoni (2008), Economia canaglia. Il lato oscuro del nuovo ordine mondiale. Milano: Saggiatore. Rogue Economics. London: Seven Stories Press. [18] After-State: a crime & free market nightmare mix.
9. Carlota Perez (2002), Technological Revolutions and Financial Capital: The Dynamics of Bubbles and Golden Ages. Cheltenham, U.K.: Edward Elgar. A companion to Minsky: the full post-Schumeterian theory of bubbles and clusters. Economic media banalise Schumpeter, pretend bubbles are just an innovation byproduct, and illegally enroll him in the free-market right: read these antidotes - against the ideology of the idiots.
10. Nouriel Roubini (2008 a, b), "The Rising Risk of a Systemic Financial Melt-down: The Twelve Steps to Financial Disaster" and "Can the Fed and Policy Makers Avoid a Systemic Financial Meltdown? Most Likely Not". February 5 and 8. http://www.rgemonitor.com/blog/roubini . A milestone: see sect. 4.
11. Roberto Saviano (2006), Gomorra (various worldwide ed.). A cameo adding to Loretta's fresco: the South Tirrenic coast is directly governed by multinationals (camorras, ndrangheta, mafia). Politicians, like post-communist Bassolino, sold their soul and Neapolitans to the camorras. The strongest clan, the Casalesi, emitted a Fatwa to Roberto (29 y. old), living in legal clandestinity after his book. Waiting for a LIBERATION WAR: GARIBALDI 2, UN troops in Amazonia, Campania, Sudan.
12. Brigida Schulte (2008, March 22), My House. My Dream. It Was All an Illusion.' Washington Post (Glenda Ortiz: see Section 4).

[18] From the European sex market to the surge of Islamic finance, form the pirate industry in China to illegal fishing in the Baltic sea. Our world is is shaken by obscure and anarchist forces, transforming the global market into our worst nightmare. The Author, a specialist in the Economy of terrorism, maintains that, as the State retired from the economy, illegal finance and mafias took the empty place. Slavery, a necessary component of globalisation, now is larger that in colonialist times, and costs 1/10 than in the Roman Empire. An impressive series of case studies on our deflationary, unlimited Industrial Reserve Army epoch.

http://enzofabioarcangeli.files.wordpress.com/2008/06/subcrimebiosocialscience.pdf

13. *Gillian Tett (2008, May 31\ June 1), "Derivatives" have become a dirty word. FT Weekend magazine, pp. 21 -6. Best inquiry on the last Minsky cycle, with insider stories and portraits by M. Clement.* [19]

5.2 Other selected readings

David Barboza (2006, Oct. 13), China Drafts Law to Boost Unions and End Abuse. [20]
Li Datong (2007, June 7), Sindacati cinesi. Internazionale no. 696.
John Bellamy Foster, "The Household Debt Bubble," Monthly Review 58, no.1, 1–11, on the rise in household debt.
David Greenlaw, Jan Hatzius, Anil Kashyap and Hyun Song Shin (2008, Feb. 29), Leveraged Losses: Lessons from the Mortgage Market Meltdown. Paper for the 2008 US Monetary Forum. [21]

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[19] Recommened to beginners and economists as well. Our suggested interpretation of his evidence:

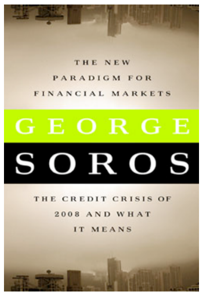
I. finance is a peculiar example of a no-monopoly ideal of 0 IPR and no patent, boosting creativity;
II. it also shows the risks of such an **unbound Prometheus**; as in Greek tragedy, mimetic crises (René Girard) are likely to arise in a future, eventual **capitalism** without IP Rights & Rents, since in such a world:

- imitation is immediate and quickly challenges, evaporates Schumpeterian innovation quasi-rents;
- the innovation bandwagon is anticipated, and previous product cycle lengths are cut shorter;
- therefore maturation is also anticipated: fast banalisation, commoditisation, low profits entropy.
- This leads a Schumpeterian rent-seeker into a Sisipho's fatigue of inventing always new trajectories.
- As in the Myth, he will hardly get extraprofits, unless: from non-IP based market power or monopoly; profiting from very short windows (Triad Power thesis); fast jumping to always new trajectories; "lateral", complementary innovations: namely going ILLEGAL, MAFIOSI, MOONLIGHT ECONOMY, "shadow finance" and slave traders (L. Napoleoni).
- As for subcrime: the Reagan-Clinton hyper deregulation allowed **whoever** to contact the mortgage client - read the Gloria's story details. Then an illegal-to-legal chain was gradually cleaning (*blanchissant*) the original dirty credit attached to a house (real asset), and parcellising\spreading the certainty of mass failures (at bubble end). At the other end of the chain: City or UBS (all the commercial banks) were buying complex derivative "synthetic" innovations, where the traces of Glorias' blood had been whitened. The scandal is that rating agencies and regulators knew it all and were complices: **in a democracy, Bernanke and all the rating agency CEOs would be in jail. This is an argument pro-Michel Foucault: we do not live in democracies, but liberal (or tyrannic) Thanatosystems.**
- In the specific subcrime case, the most common view is that of an innovation trajectory, exceeding the ordinary- e.g. a Minsky Mode cyclical pattern. Here, JP Morgan's team (SCDO inventors, no copyright) believe other banks were TOO LESS innovative, and applied to subprime mortgages **a synthetisation format invented for "good" debts**.
- **Capitalism without IPR monopolies, falls into "surplus competition" by imitation and herd behaviour (Girard's mimetism). This is an argument pro-socialism: a no-monopoly capitalism is incoherent, unsustainable.**

[20] China is planning to adopt a new law that seeks to crack down on sweatshops and protect workers' rights by giving TU real power for the first time. But a gradualist law on labour rights is not given: the NYT informs - on first page - that US-EU lobbying has blocked it. The news created a scandal. Datong (2007) updates: ...

[21] This report discusses the implications of the recent financial market turmoil for central banks. We start by characterizing the disruptions in the financial markets and compare these dislocations to previous periods of financial stress. We confirm the conventional view that the current problems in financial markets are concentrated in institutions that have exposure to mortgage securities. We use several methods to estimate the ultimate losses on these securities. Our best (very uncertain) guess is that the losses will total about $400 billion, with about half being borne by leveraged U.S. financial institutions. We then highlight the role of leverage and mark-to-market accounting in propagating this shock. This perspective implies an estimate of the eventual contraction in balance sheets of these institutions, which will include a substantial reduction in credit to businesses and households. We close by exploring the feedback from credit availability to the broader economy and provide new evidence that contractions in financial institutions balance sheets' cause a reduction in real GDP growth. NOTE: The two academic co-Authors also wrote on March 20 FT, p. 12.

David Hirshleifer and Siew Hong Teoh (2001), Herd Behavior and Cascading in Capital Markets: A Review and Synthesis. Ohio State Un., Dec. 19. [22]
Kate Kelly (2008), The Bear Stearns run and bail out. WSJ, May 27-28-29.
Marc Lavioe (2004), "A Primer on Endogenous Credit Money," in Studies in the Modern Theories of Money, Loius-Phillippe Rochon and Sergio Rossi eds. Amherst, MA: Edward Elgar.
Charles R. Morris (2008), The Trillion Dollar Meltdown: Easy Money, High Rollers, and the Great Credit Crash. London: PublicAffairs.
A. Orléan (1999), Le pouvoir de la finance. Paris: Odile Jacob.
Michael J. Panzner (2008), Financial Armageddon: Protecting Your Future from Four Impending Catastrophes. Rev. Edition (Paperback). Kaplan.
Kim Phillips-Fein (2008. April 7), Hard Times. The Nation.
Kim Phillips-Fein (2009 - forthcoming), Invisible Hands: The Making of the Conservative Movement From the New Deal to Reagan. New York: Norton.
Amity Shlaes (2008), The Forgotten Man. New York: HarperColllins. Her history of the Great Depression (to be compared with Phillips-Fein'e one) is an attempt to reclaim back the 1930s for the free market. Unfortunately for her, the free market is just dead.
Robert J. Shiller (2006), Irrational Exuberance, 2nd ed. New York: Doubleday.
Robert Shiller (2008, May 18), The Scars of Losing a Home. NYT [23]
Adam Smith (1776), An Inquiry into the Nature and Causes of the Wealth of Nations. London: Strahan and Cadell. Critical ed. 1976: R.H. Campbell and A.S. Sjunner eds., Oxford: Oxford University Press.



George Soros (2008), The New Paradigm for Financial Markets: The Credit Crisis of 2008 and What It Means. New York: Public Affairs and eBook. [24]

Mike Whitney (2008, April 14), Nothing for Families and Retirees. A Trillion Dollar Rescue for Wall Street Gamblers. http://www.counterpunch.org/hudson04142008.html

[23] This paper by the bubble scholar, full of empathy for the foreclosed, was attacked - with good reasons - for complicity with pro-subcrime policies by Yves Smith at Naked Capitalism (With friends like this, liberals have no need of enemies) and Tanta at Calculated Risk.com. A political paradox: honest conservatives tell the truth on housing bubbles ("not a true free market": Hutchinson 2008), better than liberals or "friends", fully immersed in the Ownership myth - distorting housing rights as State Capitalism perverts Socialism.

[24] The U.S. is facing both a recession and a flight from the dollar. The renminbi can be expected to catch up with the euro both to avoid protectionism in the U.S. and Europe, and to contain imported price inflation in China. This will increase prices at Wal-Mart, and put additional pressure on the already beleaguered U.S. consumer. Eventually, the U.S. government will have to use taxpayers' money to arrest house prices, whose decline will be self-reinforcing, with people walking away from homes in which they have negative equity and more and more financial institutions becoming insolvent, thus reinforcing both the recession and flight from the dollar. The Bush administration and most forecasters do not understand that markets can be self-reinforcing on the downside as well as the upside, and are waiting for the housing market to find a bottom on its own. The administration has left the conduct of policy to the Federal Reserve. This has put too much of a burden on an institution designed to deal with liquidity, not solvency problems. With the Bear Stearns rescue operation and the latest-term security lending facility, the Fed has put its own balance sheet at risk. NOTE. Soros has a nice view of the forecasters' bias, reflecting Kahneman-Tversky's prospect theory.

Mike Whitney (2008, April 22), Memo to Bernanke. Enough With the Rate Cuts, Already! http://www.counterpunch.org/whitney04222008.html

John C. Williams and John B. Taylor (2008, April), A Black Swan in the Money Market. Fed. RB of San Francisco WP. [25]

Martin Wolf, "Helicopters Start Dropping Bundles of Cash," Financial Times, December 13, 2007. Helicopter Ben takes off: reaching full regime January-March 2008.

"The Week That Shook Wall Street," *Wall Street Journal*, March 18, 2008.

5.3 Further food 4 thought

Tobias Adrian and Hyun Song Shin (2007), Liquidity and Leverage. working paper, FRB New York and Princeton University, http://www.princeton.edu/~hsshin/working.htm

Michel Aglietta and Atoine Réberioux (2004), Les Dérives du capitalisme financier. Paris: Albin Michel.

Lawrence M. Ball (2006), Has Gobalization Changed Inflation? NBER wp 12687 [26]

Lawrence M. Ball and N. Gregory Mankiw (2002), The NAIRU in Theory and Practice, Journal of Economic Perspectives, 16: 115-136. [27]

Lawrence M. Ball and Robert R. Tchaidze (2002), The Fed and the New Economy. NBER wp 8785 and: American Economic Review, 92: 108-115 [28]

Karl Beitel "Did Overzealous Activists Destroy Housing Affordability in San Francisco?" Urban Affairs Review 42, no. 5, 741–56.

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[25] At the center of the financial market crisis of 2007-2008 was a highly unusual jump in spreads between the overnight inter-bank lending rate and term London inter-bank offer rates (Libor). Because many private loans are linked to Libor rates, the sharp increase in these spreads raised the cost of borrowing and interfered with monetary policy. The widening spreads became a major focus of the Federal Reserve, which took several actions—including ... a new term auction facility (TAF) ... This paper ..., using a no-arbitrage model of the term structure, tests various explanations, including increased risk and greater liquidity demands, while controlling for expectations of future interest rates. We show that increased counterparty risk between banks contributed to the rise in spreads and find no empirical evidence that the TAF has reduced spreads. The results have implications for monetary policy and financial economics. Note: implication no.1 is: TAF failed.

[26] Many observers suggest that the "globalization" of the U.S. economy has changed the behavior of inflation. This essay examines ... several questions: (1) Has globalization reduced the long-run level of inflation? (2) Has it affected the structure of inflation dynamics, as captured by the Phillips curve? (3) Has it contributed substantial negative shocks to the inflation process? The answers ... are no, no, and no.

[27] This paper discusses the NAIRU -- the non-accelerating inflation rate of unemployment. The paper then discusses why the NAIRU changes and, in particular, why it fell in the United States during the 1990s. The most promising hypothesis is that the decline in the NAIRU is attributable to the acceleration in productivity growth. This fits with both theoretical expectations, and the evidence of a productivity-paradox solving.

[28] This paper seeks to understand the behavior of Greenspan's Federal Reserve in the late 1990s. Some authors suggest that the Fed followed a simple 'Taylor rule,' while others argue that it deviated from such a rule because it recognized that the 'New Economy' permitted an easing of policy. We find that a Taylor rule based on inflation and unemployment does break down in the late 1990s. However, the Fed's behavior appears stable, once one accounts for the falling NAIRU of the period (see former note). A rule based on inflation and "unemployment minus NAIRU" fits Fed's behavior through the entire period 1987-2000.

Ben Bernanke (1983), Nonmonetary Effects of the Financial Crisis in the Propagation of the Great Depression. American Economic Review 73, pp. 257-276, http://www.jstor.org/view/00028282/di950033/95p00602/0

Ben Bernanke, Mark Gertler and Simon Gilchrist (2000), The Financial Accelerator in a Quantitative Business Cycle Framework. In: ... eds., Handbook of Macroeconomics. Amsterdam: North Holland. [29]

Ben Bernanke and Vincent R. Reinhart, Conducting Monetary Policy at Very Low Short-Term Interest Rates. American Economic Review 94, no. 2 (2004): 85-90.

Breakingviews.com (2008a), When the Dancing Stopped, The Credit Crunch of 2007 as it Happened. London.

Breakingviews.com (2008b), Run on the Rock: The Northern Rock Debacle. London.

Warren Brussee (2005), The Second Great Depression. Booklocker [30]

David Cass (1972), On Capital Overaccumulation in the Aggregative, Neoclassical Model of Economic Growth: A Complete Characterization. Journal of Economic Theory, 4: 200-223. [31]

Kim, W. Chan and Renée Mauborgne (2007), Blue Ocean Strategy. Cambridge, Mass.: Harvard Business School Print.

François Chesnais (2006), La prééminence de la finance au sen du "capital en général", le capital fictif et le mouvement contemporain de mondialisation du capital, pp. 65-130 in: Suzanne de Brunhoff et al. eds., La finance capitaliste. Paris: PUF. [32]

[29] Bernanke et al. (2000) develop the financial accelerator model, from previous works such as Bernanke and Gertler (1989), Kjyiotaki and Moore (1997), Carlstrom and Fuerst (1997). Gertler, Gilchrist and Natalucci (2003, www.nyu.edu/econ/user/gertlerm/paper_1.pdf) extend the model to an open economy, apply it to the 1997-98 Korean crisis, and find an amplifying effect of flexible exchange rates. REFERENCES:
B. Bernanke and M. Gertler (1989), Agency Costs, Net Worth, and Business Fluctuations, American Economic Review, 79: 14-31.
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N. Kjyiotaki and J. Moore (1997), Credit Cycles, Journal of Political Economy, 105: 211-248.

[30] The book, written in 2004, has 3 parts. The first one argues that we are heading towards a severe U.S. downturn, driven by an unsustainable consumer debt. The second part uses data to show that the stock market is not the best place to be right now, and how to invest once the market drops its predicted 70%. The third part gives charts and formulas on how much money someone needs to save for retirement, assuming a realistic return on investments, not a fantasy 10%. The author is a GE engineer retiree, an expert in the Six Sigma statistical methodology for quality control.

[31] "The possibility of such errant behavior has to do with the fact that there's neither a market signal nor a market adjustment mechanism associated with a condition like (14) or (19) (as there is, for example, if a small producer tries to sell his output above or below marginal cost). This means that the only way a wealthy economy with a strong Protestant-type ethic can avoid overaccumulation is by conscious government policy."

[32] "Ce chapitre interroge ce que Marx, mais également Rudolf Hilferding, auteur maudit souvent cité mais largement méconnu, ont écrit au sujet du "capital porteur d'intérêt" et du "capital financier" qui peut aider à analyser ces aspects de l'économie contemporaine. (...) On comprend ainsi à quel point l'analyse de la finance est devenue absolument cruciale, à quel point le présent livre doit servir de jalon dans une discussion qui a trop tardé à s'engager" (pp. 66 and 123).

Paul Davidson (2008), Is the current financial distress caused by the subprime mortgage crisis a Minsky moment? Jan. http://mpra.ub.uni-muenchen.de/7427/2/MPRA_paper_7427.pdf [33]
Howard Davies and David Green (2008), Global Financial Regulation: the essential guide. London: Polity Press. [34]
Mike Davis (2006), Planet of Slums. London-New York: Verso.
de(e)pre(ce)ssion's static pages and blog posts: click appropriate tags (Chesnais, Minsky, subprime, etc.) in http://enzofabioarcangeli.wordpress.com/
The Economist special reports:
"Cracks in the Façade," March 24, 2007, pp. 79-81.

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[33] *Abstract.* Does Minsky's theory explain recent market instability? For financial fragility, Minsky argued, specific preconditions must occur. They have not occurred, therefore recent financial market instability is not a Minsky moment. Instead the recent financial market instability is due to an insolvency problem of large underwriters caused by their attempt to "securitize" (make liquid) mortgages (where the latter are normally illiquid assets). The solution for such an insolvency problem is large direct infusions of new capital in these institutions and/or removing nonperforming loans from their books. An easy money policy per se will not do.

Comment. A paper out of the chorus, worth a discussion (see e.g. Wry 2007 and our note 20):

- in analytical terms: why could not a Keynes-Minsky frame be extended, so as to cover latest financial innovations? Imagine someone saying that there is no "creative destruction", since Schumpeter never mentioned microprocessors and quantum computing. See our Hyper-Ponzi 4th class and Lemma 2.3 in Section 3. Were they good, Davidson's thesis would become post-Minskyan.
- A key point is to detect how peculiar is this crisis. The paper focuses upon the novelty of the techniques introduced in the last decade (for a simple but subtle narration: Tett 2008, May 31; our note 20 comment)
- On the other hand, developing an analytical frame from either Marx, Keynes or anybody else, implies continuing and innovating their research programs, going **beyond their times in a Mental Experiment.**
- Griffith et al. 2008, p.43: "The current crisis has the distinction of being **the first "post-securitization" credit crisis** and so it has many unfamiliar features. For this reason, the formulation of a policy response that builds on a clearer recognition of the mechanisms of the crisis is more important than ever".
- Insolvency by over-securitization*:* the cures evaporate week after week, co-evolve with the Meltdown *(be it Minsky or Davidson).* The FIH focuses a key point: commercial, financial banks and shadow finance units are filtering down, displacing one another, on a scale of equity/assets unsustainable ratios (Section 3).
- Minsky knows no less than Davidson, why traditional solutions don't work. The latter proposes:

  a) Infusion of new equity K? Three, **all public** alternatives: China, the Middle East and the West. Many sources discuss them comparatively. A geopolitical cash exploded in 2007 and is ongoing, as SWFs from the East entered the **post-subcrime class war** catastrophic scene.

  b) Selling poisoned securities and vehicles to whom? The State, again! But, if we are talking socialism, the State might have better fiscal priorities than bailing out **subprime civil war criminals.** Better to defer them to The Hague, and close down their insolvent financial units.

[34] Sir Howard Davies (LSE director) in FT 080402, p.9, commented the day before reform proposals, outlined by the US Treasury (a bluff, since re-regulation will be the next US administration's task, not Paulson's). In national laws, there are 3 architectures of financial regulations (and no one cross-country, just Europe is thinking about that: *Plans to regulate banks across borders gain steam*, WSJ Europe 080403, p. 19): 1) functional (separate bodies), 2) unitary and 3) dual (*Twin Peaks:* one authority for prudence, and one to monitor the general conduct for business standards). Adopters: 1) US; 2) London's FSA, Germany, Japan, Korea and 50 other countries; 3) Australia and the Netherlands. He does not tell how Monday March 31 US Treasury dept. announced blueprint fits the taxonomy; it is a type 1 proliferation: 5 bodies, including a new one for business standards; one peak: unprecedented Fed oversight over, accountability for every corner of US finance (**Fed Supercop,** WSJ 080402, p. 11). **After March '08 new rules, the Fed is already anticipating in part the reform and controlling financial units books, not so differently from commercial ones.**

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"Housing, Credit and Consumer Expenditure", by John Muellbauer http://www.kc.frb.org/publicat/sympos/2007/PDF/2007.09.17.Muellbauer.pdf
"Housing and the Monetary Transmission Mechanism", by Frederic Mishkin http://www.kc.frb.org/publicat/sympos/2007/pdf/2007.09.20.mishkin.pdf
"The Financial Accelerator and the Credit Channel", speech by B. Bernanke, 2007\06\15 http://www.federalreserve.gov/newsevents/speech/bernanke20070615a.htm
"Inflation Dynamics", by Frederic Mishkin (speech, March 23rd 2007) http://www.federalreserve.gov/newsevents/speech/mishkin20070323a.htm
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[36] What went wrong in the financial system - the long, hard task of fixing it: leader, p. 15. 10-page special on the financial crisis, stories on Bear Stearn's demise, monetary policy, commodities, dollar and lessons from other crises: from p. 73.

[37] Martin Hutchinson is the author of "Great Conservatives" www.greatconservatives.com (Academica Press, 2005). His analysis has amazing similarities with our one and our references' ones as well: except for political and scientific - quite opposite ! - paradigms. Govt. failures: monetary policy first, feeding the housing bubble, and even manipulating inflation statistics (underestimated a 0.8 - 1 % per year, according to the A.).

[38] A nice intro to JMK. It has magic: in a double mirror, it is rooted in history as was the General Theory. Paul K. makes a point to JMK: did you overstate liquidity trap's empirical relevance? JMK might reply: 20th Century's last quarter was a high interest rates short parenthesis. With Nippon disease, a deflationary régime and shadow melting downs, couldn't the liquidity trap strike back? We'll ask Paul K., since JMK doesn't reply to mails any more, in the longrun.

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Nouriel Roubini (2008 c), Should Securities Firms be Regulated and Supervised like Banks? March 23. rge-monitor.com [41]

Nouriel Roubini (2008 d), Ten Fundamental Issues in Reforming Financial Regulation and Supervision in a World of Financial Innovation and Globalization. March 31, rge-monitor.com

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[39] Minsky's work is one of the most important links between Post Keynesians and Institutionalists. ... his writings (...) that are less well known ... have been for the most part developed (...) during his association with the Levy Institute. Minsky always insisted that theory must be institution-specific. Because there are a variety of possible types of economies, and even "fifty seven" varieties of capitalism, theory must be appropriate to the specific economy under analysis. His analysis concerned an evolving, developed, big-government capitalist economy with complex and long-lived financial arrangements. His policy recommendations were designed to promote a successful, democratic form of capitalism given these financial arrangements. These policies would have to "constrain" instability through creation of institutional "ceilings and floors", while at the same time they would have to address the behavioural changes induced by reduction of instability. The policies would also have to promote rising living standards, expansion of democratic principles, and enhancement of security for the average household. Thus, his proposals go far beyond "invisible handwaves" of free market ideologues, but also well beyond macroeconomic tinkering normally associated with "Keynesians" to take into consideration the required institutional change that would promote the sort of society he desired.

[40] A panoramic view of financial crises from England's fourteenth-century default to the current United States subcrime. A study based on a new dataset that spans all regions. It incorporates a number of important credit episodes seldom covered in the literature, e.g. India and China.
"As the first paper employing this data, our aim is to illustrate some of the broad insights that can be gleaned from such a sweeping historical database. We find that serial default is a nearly universal phenomenon as countries struggle to transform themselves from emerging markets to advanced economies. Major default episodes are typically spaced some years (or decades) apart, creating an illusion that "this time is different" among policymakers and investors. A recent example of the "this time is different" syndrome is the false belief that domestic debt is a novel feature of the modern financial landscape. We also confirm that crises frequently emanate from the financial centers with transmission through interest rate shocks and commodity price collapses. Thus, the recent US sub-prime financial crisis is hardly unique. Our data also documents other crises that often accompany default: including inflation, exchange rate crashes, banking crises, and currency debasements."
M. Wolf (FT, 080416): The chart shows that the incidence of banking crises (measured by the proportion of countries affected) has been as high since 1980 as in any period since 1800; that **the incidence of crises is correlated with liberalisation of capital flows.**

[41] The response of the Fed to this bank-like runs on non-bank institutions has been the most radical change in monetary policy and lender of last resort support by the Fed since the Great Depression ... bank runs on illiquid but solvent banks can be addressed via bank holidays; but the risk ... has led – historically – to two alternative ways ...: deposit insurance and lender of last resort support by the central banks. Since these forms of support potentially lead to moral hazard ... these banking/depository institutions - ... - are also subject to strict regulation and supervision of their activities ... .
Now that some non-bank financial institutions that have been deemed as too-systemically-important to be allowed to fail – i.e. Bear Stearns and non-bank primary dealers – have been effectively put under the lender of last resort support umbrella of the Fed the question arises: shouldn't these non bank institutions be regulated and supervised in the same way as banks are? ... Note that currently US securities firms are supervised/regulated by the SEC and have lower capital standards than banks.

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Financial history books recommended by John Zhu, breakingviews.com

Devil Take The Hindmost: A History of Financial Speculation (1999) Edward Chancellor. A cult book on bubbles and manias. [43]

The Great Crash, 1929 (1955) John Kenneth Galbraith. The classic on the subject. An analysis of the months leading up to the October 1929 stock market crash and the aftermath. Galbraith's darkly humorous tone, e.g. "One can relish the varied idiocy of human action during the panic to the full, for, while it is a time of great tragedy, nothing is being lost but money", was a hit with many readers.

Barbarians at the Gate: The Fall of RJR Nabisco (1990) Bryan Burrough and John Helyar. Spawned the genre of the blow-by-blow deal story, and offered a great glimpse into M&A tactics. Memorable pictures of egomaniacal investment bankers and lawyers who grow fat on the consulting fees generated by takeover deals.

Liar's Poker (1989) Michael Lewis. Author's journey through trader training in parallel with the rise and fall of Salomon Brothers. While extremely critical of Wall Street culture, the book might have attracted as many into the industry with vivid anecdotes.

When Genius Failed: The Rise and Fall of Long Term Capital Management (2000) Roger Lowenstein. An account of how the LTCM, mega hedge fund's near collapse caused panic throughout global markets in 1998.

The Sun Also Sets: Limits to Japan's Economic Power (1989) Bill Emmott. A contrarian book arriving immediately before Japan's bubble burst and when most were predicting Japan's inevitable dominance.

Extraordinary Popular Delusions and the Madness of Crowds (1841; Italian transl. 2000. Il Sole 24 Ore) Charles Mackay. The 1st classic on herd behaviour, trading trickery in finance: "Men, it has been well said, think in herds; it will be seen that they go mad in herds, while they only recover their senses slowly, and one by one."

[42] This paper applies Hyman P. Minsky's approach to the current international financial crisis initiated in the U.S. real estate market. In a 1987 manuscript, Minsky had recognized the importance of the trend toward securitization of home mortgages. The paper identifies causes and consequences of the financial innovations that created the real estate boom and bust. It examines the role played by each of the key players—including brokers, appraisers, borrowers, securitizers, insurers, and regulators—in creating the crisis. Finally, it proposes short-run solutions and longer-run policies.

[43] An entertaining but scholarly look at speculative mania- disillusion bimodal cycles. From 17th century tulips to the Internet investment of the late 20th, speculation has established itself as a demoniac dark side of the economy. Although profoundly secular, speculation is not simply about greed. The essence of speculation remains a Utopian yearning for freedom and equality, which counterbalances the rationalistic materialism of uncompassionate, unequal capitalisms.