

Globalization should be what states make of it

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Introduction

Since 2007-2008, a financial crisis, which first originated from a 'housing bubble' and the collapse of the US banks that were sustaining that bubble, has spread to the rest of the world and caused a major recession which as of early 2013 only shows very little signs of resorbtion. It is widely argued that a major factor which prevented this Global Financial Crisis (GFC) from becoming, despite its severity, as calamitous as the Great Depression of 1929, is the fact that states (the US government first then European governments when the crisis spread) reacted swiftly to inject billions of dollars of public money to save the major banks that were on the verge of bankruptcy, and thus prevented a collapse of the global financial system.

But, if this massive state intervention has temporarily saved the banking system, it has made even more acute the problem of states' debt problem, and the fact that many of them are in dire financial straits, and that if, to a large extent the current aspect of the crisis is seen as a sovereign debt problem, this largely circumscribes the policies available for states to resorb the domestic aspects of the crisis. Furthermore, the GFC has highlighted grave dysfunctions not only in the global financial system that underpins to a large extent that process of globalization, but by extension it has highlighted a crisis of the global capitalist system as a whole.

Indeed, global finance is not a by-product of globalization, but as Cerny pointed out "the infrastructure of the infrastructure". It is possibly with irony but without humour, that the "greed" of banks has been originally widely blamed as the main cause of the crisis.

Considering that finance is based on making profits on investments, greed is indeed a by-product of this process, but not a cause. The progressive deregulation of the international system, which has seen its crux by the repeal of the Glass-Steagal act in the US in 1997, has allowed unbridled speculation to spread to global markets, and become the easiest, although at the same time the riskiest, way to make immense profits on minimum long-term investment. In a global version of the "cookie jar" it is thus the absence or insufficiency of rules that must first be blamed. If the children cannot, somewhat legitimately, resist temptation, it is for the parents to lay down the law. Considering that "states make the

framework of globalization” (Cox, 2006, p. 39), it can be conceived, just as legitimately, that states, in conditions that this thesis will attempt to explore, have to endorse that responsibility.

It is thus the main purpose of this thesis to argue that the GFC has shown that states had huge responsibilities in keeping the global economy afloat, albeit without a clear compass or direction. In a reverse logic to the “Spiderman motto”, big responsibility should entail big power. Without necessarily arguing that the GFC could be conceived as a ‘paradigm shift’, it can more modestly be construed as an argument to defend a new perspective on the process of globalization. With markets and financial structures seemingly unable to sustain economic growth without cycles of deep crisis, which incidentally do not harm financial institutions as much as the millions of people who suffer from unemployment and chronic poverty, the apparent ‘anarchy’ of the global market system makes conceivable that, to paraphrase A. Wendt, “globalization should be what states make of it”.

In order to do so the thesis will be separated in four parts:

After limiting the scope of study to the postmodern state, the first part is looking at the discourse surrounding the globalization process and global governance, the role of finance and the “state of the state”. First arguing that globalization is not only a fact, describing the interconnectedness of economies in a global context, it is also a dominant discourse which prescribes the condition of globalization, within a neo-liberal ‘paradigm’ that promotes deregulation and limited government intervention. Inevitably placing global finance as “the sinews of power” in the global economy, I then turn to the debate about the role of the state in International Political Economy (IPE). The argument being that the ‘decline’ of the state, either perceived or partially realized, is the result of deliberate policy, embodied in the “neo-liberal paradigm”, its most dangerous consequence being the ensuing ‘democratic deficit’ which excludes and disenfranchises the people from economic and political decision-making processes.

The second part addresses the consequences of GFC, highlighting that it is the swift reaction of states that prevented the GFC from being as disastrous as the Great Depression. This induces renewed legitimacy as the amount of public money needed to redress private market failures has made sovereign debt problem even more acute. International Institutions still too timid, despite a curb in discourse, because structures are powerful. But, if not yet a 'paradigm shift', GFC has many ingredients of a crisis of capitalism itself, the crisis of 'economicism' shows that liberal capitalism needs to re-invent itself to some measure and political action is crucial to curb the excesses of finance.

The third part will be a sort of case-study of France, enlarged to the European Union as the one cannot go without the other. France makes for an interesting case as a country which has retained distinct form of national capitalism, but also had to adapt to the global context, while developing a certain cultural unease with both. In the wake of the Global Financial Crisis, it saw a change of government, where the Parti Socialiste and Francois Hollande won the election on a strong 'anti-finance' platform, and where expectations of a return of the state, to steer the economy along lines decidedly anti-neoliberal have raised expectations. These were coupled with a vision to steer the European Union towards a less market-oriented form of decision-making and a stronger co-operation towards policies aimed at fostering growth, rather than concentrating on fiscal austerity. It remains to be seen if that kind of shift will actually be able to operate and, in a renewal of the European dream, set the tone for global reforms.

The fourth part is, in conclusion, an attempt to show if the GFC is a result of the "neoliberal" revolution that has taken over the world in the past few decades, and if this state of affair was first and foremost a creation of states themselves, states have the responsibility, and the mandate to change the course. Considering that self-regulated markets have failed, and are in a position to fail to an even greater instant at ensuring the form of "global order" that the neoliberal ideology had professed, it is now time for "a paradigm shift", even though at this stage all still needs to be done.

The core argument that I will attempt is that the global 'trial' of the neoliberal paradigm (best embodied and symbolized in the concept of financial deregulation) has now entered its second phase. It is historically and symbolically the defeat of the self-regulating markets as a blueprint for global prosperity, but although the thesis is that Globalisation should be steered by states rather than markets, the present structures are inadequate, and states have to find new ways for cooperation in order to steer this integrated world towards greater cohesion.

I -The post-modern state and the process of globalization: finance, markets and the debate about the decline of the state

1-Scope of study

A-Defining the state in question: The post-modern state

Despite its centrality to the disciplines of International Relations (IR) and International Political Economy (IPE), the state is a complex concept to define. Because of this complexity, the state is sometimes assumed as “undefinable” (Easton, 1971). However intellectually honest or accurate, sadly this will not help us much. Thus rather than a broad definition of a conceptual state, we will resort to a mere re-definition, or rather a circumscription of our scope of study and the type of state we are most interested in for this thesis.

A traditional realist or neo-realist view would emphasize the state’s coercive and administrative control over its territory and population, assuming that the state operates as a unitary and autonomous actor in an anarchical international system. A more comprehensive view is derived from Weber’s analysis of the sociological forces within the state, which underlines the existence of domestic pressures within the state and recognizes that the state itself may be divided on a particular foreign economic issue (Stubbs & Eaton, 2006). For the purpose of this thesis, the Weberian concept has many advantages, provided that from his seminal concept of “legitimate force” as the source of the state’s power, we emphasize the concept of legitimacy rather than force, and to the extent that it does otherwise recognise the horizontal perspective within the state, which is useful to highlight the inner conflicts of interests between different strata of the polity.

Similarly, in a geo-political perspective, the nation-state itself cannot be reduced to a self-containing definition. Groupings and sub-groupings are necessarily reductive and insufficient. Concepts of ‘failed states’ or ‘post-modern states’ are highly subjective. Nevertheless, it is necessary to rationalize our scope of study. For that purpose, our study will concentrate on the ‘post-modern state’ defined by Robert Cooper as ,in the case of the old western states, states “which have rejected the use of force to settle disputes, and their security is based to a great extent on the transparency of their foreign policies, the interdependence of their economies and a system of mutual

surveillance” and “who are the most prepared to negotiate their sovereignty in exchange for gains in other areas and who are more open to interference from public opinion” (Cohen, 2006, p. 21). Although imperfect, this term will have the merit of offering a somewhat coherent scope of study.

Of utmost importance in concentrating our scope of study on the post-modern state is the concept of democratic participation, since we will explore to what extent it is one of the most important aspects of the modern state, the legitimacy of democratic representation and ensuing political action that the structures of global finance have arguably challenged.

As Hedley Bull duly noted in his defence of the positive role of states (Bull, 1979), it is somewhat ironic that the critics of the importance of states in the global system mainly originated in the West. This is not only because it is the western states who were the main driving force in creating the institutions mandated to create the conditions of a more comprehensive and coherent world order, whether political or economic and financial, but also because it was assumed that “if the barriers separating states were abolished, it would be our way of life and not some other that would be universally enthroned” (Bull, 1979, p. 122). As Cohen underlines, the post-modern state is indeed the type “that attracts the most attention from the declinist theory”, but Cohen also argues, the sort of state that best “resist the ‘attacks’ against them” (Cohen, 2006, pp. 23-24). The irony noted by Bull can be made easier to understand if we consider that this shift broadly consisted of a transfer of control from public to private hands, but still firmly in “post-modern” hands. That this shift continued to benefit the economic power of western states is hard to deny, at least in the short term.

The globalization process though, has seriously undermined the welfare of parts of the polity within the post-modern state and by extension put a strain on its legitimacy, as the dominant discourse became eroded by malpractice and the very partial realisation of its avowed goals.

B- Globalization and global financial governance:

The Globalization process and its ambivalent definition

Globalization is a hotly debated, thus elusive, concept in International Relations (IR) and International Political Economy (IPE). Finding a encompassing definition is impossible so, to paraphrase Michael M. Weinstein, “I won’t”. It is necessary, though, to define the useful aspects, which will serve as the setting for this thesis. For this Weinstein does offer a useful shortcut when he writes that “In general, globalization refers to a process - an evolution of closer economic

integration by way of increased trade, foreign investment, and immigration” (Weinstein, 2005, p. 2). From this shortcut, the concept of globalization as a ‘process’ is central. It is widely accepted that the process is not new, roughly, in its modern phase, finding an origin in the industrial revolution of the 19th century and the subsequent process of colonization. But it is its more recent evolution, some would say ‘revolution’ (O’Brien & Williams, 2010) starting with the collapse of the Bretton-Woods system in the early 1970’s. The term ‘process’ is actually in itself problematic, since it can be defined either as “a a natural phenomenon marked by gradual changes that lead toward a particular result” or “a series of actions or operations conducing to an end”¹. This duality of meaning neatly underlines the crux of the debate between what can be summarized as a conflict of philosophy between the neo-liberal school that would want the freeing of markets and finance to be considered as the expression of a natural phenomenon, and a liberation of markets natural forces from the chains of government control and those who view the shift as a carefully organised process which has for purpose to shift the control of markets, which are never free, under private hands. Incidentally, beyond semantics and notwithstanding the roles they may have played in their own relative economic disenfranchisement, “states make the framework for globalization” (Cox, 2006, p. 39). The quote is used here for direct effect, Cox himself acknowledging that the role of the state had morphed.

To summarise this new system, Strange argued that “Instead of a series of national financial systems linked by a few operators buying and selling credit transnationally, across national frontiers and across the exchanges (i.e. from one national currency to another) and by a few national asset markets (e.g. stock exchanges) so linked that they respond to each other, we now have a global system in which the national markets, physically separated by distance, actually function as if they were one. And this global financial system, instead of being a minor appendage to the various national financial systems, is now both larger than any of them *and more influential* (emphasis added). The balance, in short, has shifted from being a predominantly state-based system with some transnational links to being a predominantly global system with some local differences” (Strange, 1990). This shift put a serious strain on the post-war system of embedded liberalism in the industrialized states (or the post-modern state which is the subject of this thesis). This system was a compromise between economic liberalization in the international scene, in the form of national economies engaged in external transactions, with the possibility for states to mediate at their borders through a variety of tools (i.e. Tariffs and exchange rates) and the interest of the social community, through domestic institutions (Ruggie, 2003, p. 94).

¹ Definition from Merriam-Webster dictionary online. www.merriam-webster.com.

The discourse of globalization

For those who refute that globalization is the expression of a natural process to free markets, studying the political process that underpins the changes brought forward became of paramount importance. To the mere description of globalization as a unification of the global economic field and the expansion of that field to the entire world, Bourdieu has added a normative meaning. In what he described as a *performative* dimension, globalization refers to “an economic policy aimed at unifying the economic field by means of a whole set of juridical-political measures designed to tear down all the obstacles to that unification – obstacles that are mostly linked to the nation-state” (Bourdieu, *Firing Back: Against the Tyranny of the Markets* 2, 2003, p. 84). This is what Stephen Gill called ‘new constitutionalism’ that undercut the legitimacy of states by “(preventing) future governments from undoing commitments to a disciplinary neoliberal pattern of accumulation” (Gill, 2002, p. 48).

Although one of the main debates on globalization has concentrated on the North/South asymmetries, the underlying issue in the post-modern state has been the process of ‘embedded neo-liberalism’ (Cerny, Menz, & Soederberg, 2005), which has meant severe constraints on national varieties of capitalism and the evolution of domestic institutions. This sustains the general thesis that international and domestic politics are not two separate arenas, thus the dichotomy between states and markets is largely insufficient, and what we can still observe is the complexity and centrality of the state, even within a neo-liberal paradigm, which although omnipresent in discourse, has taken many different forms within post-modern states.

The benefits of globalization have thus been put under serious doubt, not only in terms of asymmetries between the interests and abilities of developing countries in regards to developed countries, but within the post-modern states, the interests of some parts of the polity.

Questioning the benefits of globalization and its financial governance

The importance of global finance is discussed more in details below, but it already needs mentioning, in regards to the growing concerns of the real benefits of globalization. Inherent to the economic and financial integration of globalization is also the issue of economic and financial global governance, and its incapacity, in state, to ensure stable and growing global prosperity.

The positive aspects of globalization have been harder to defend after the GFC. Defenders, who have gradually become apologists, of globalization, are not necessarily short of empirical arguments, for

as long as they use numbers and statistics based on a now out-dated paradigm, where rising GDP's and financial flows alone characterize progress. Unfortunately, when they fall short of justifying global inequalities, they seem to resort to denouncing the ignorance of the 'discontents' (Bhagwati, 2004). In doing so they, perhaps unwillingly, somehow only mirror the asymmetry of knowledge between the experts and national governments oft-cited to rationalize the abysmal failures of some IMF/World Bank neo-liberal inspired de-regulation policies that have condemned some economies of developing countries to fail. In terms of discourse, this also seem to ignore the fact that the 'discontents', or more generally what we could call the 'unprivileged' count in their billions. Critics are not only among the left-wing extremists or the unprivileged citizens of developing countries, but also a growing body of established economists and academics. As R. Deeg and M. O'Sullivan have noted, "Viewed from today's perspective, the political commitment to limit the systemic risks associated with the global financial system seems puny. Not only did it fly in the face of the evidence of the growing scale and complexity of the systemic interdependence that characterized the global financial system, but it also downplayed the significance of the financial crises that the system experienced [before the GFC]" (Deeg & O'Sullivan, 2009, p. 753).

Indeed, the rising financial mobility and thus increased integration of currency, banking and securities markets has transformed financial governance and multiplied actors involved in governance, away from state-centred patterns to transnational governance regimes that mixes public and private actors. After the collapse of the Bretton-Woods system, governance has been characterised by a neo-liberal belief in the capacity of markets to self-regulate, and regulatory bodies (in finance, the Basel Committee or the Financial Stability Board for example) to end up as little more than observers.

Deeg and O'Sullivan go on to argue that not only has political complacency now ended, but the GFC has "stimulated a new scepticism about the benefits that a liberalized regime was supposed to bring. Champions of financial liberalization and globalization were fervent in advancing their claims that despite the occasional "hiccup" the overall benefits of global capital mobility, not least for developing countries, were too large to forgo (...) Perhaps the greatest paradox of the current regime is that it has facilitated flows of funds from poor countries to rich countries, rather than in the opposite direction" (Deeg & O'Sullivan, 2009, p. 754).

C- Global finance and the state

This part does not seek to describe the complexity of the global financial structures which led to the Global Financial Crisis of 2008, as this will be addressed more comprehensively in chapter 2, as to underlines the structural changes which have affected the debate on the role of states in IPE, and the crucial role that global finance has exerted on the economic sovereignty of states, especially in terms of the relations between their monetary and fiscal policies following the “global financial revolution” of the 80’s and 90’s (O'Brien & Williams, 2010). The demise of the Bretton-Woods system and its rules of exchange rate stability and limited capital mobility in the early 1970’s has widely been construed as a ‘paradigm shift’ (Strath, 2003), which reconfigured the role of national governments in their ability to regulate their finances and economies at large and the change of discourse to justify these same changes. The process of economic globalization has been characterized by an exponential growth of international capital flow and, indeed, finance has been in that instance the precursor of what some wished to be a “borderless world’ (Ohmae, 1995).

This shift originated in the 60’s after the formulation of the ‘Mundell-Fleming paradox’. As Pauly remarked “The Mundell-Fleming trade-offs tells us a great deal about the internal choices states make when they seek mutually to harness the benefits of economic openness without incurring unacceptable costs” (Pauly L. W., 2006, p. 141). Indeed, following the principle that an economy cannot simultaneously maintain a fixed exchange rate, free capital movement, and an independent monetary policy, states “did adjust a widening range of internal policies to promote and accommodate potentially more mobile international capital flows”, but “the abandonment of exchange rate pegs and the privileging of international capital mobility opened up the possibility that uncoordinated national policies would complicate the resolution of collective action problems” and hence the need of new forms of regulation at state and global level. The theorisation of the conditions of freer capital flows and the impossibility for states to keep control of all parameters implied that states had to ‘loosen’ some parameters (political cost) in order to avoid ‘opportunity cost’ in a changing world.

Responding to the political discourse that finance would come in priority to states that de-regulate and dismantle or transform parts of their institutions, through “liberalisation”, which because no game is played without rules, became “re-regulation” resulting “in a complex economic and political process of regulatory arbitrage in which the policy communities representing financial sector interests and the regulators themselves, in ‘competition states’ fashion, seek to reform the regulatory regime in the light of the new conditions” (Cerny P. G., 1993, p. 57). Cerny’s acute analysis of the processes at hand (re-regulation, decompartmentalization, disintermediation and financial

innovation) and the rise of the 'competition state' encapsulates the conditions under which states had resolved to somehow co-operate to re-regulate the global economic order, ushering in the neoliberal revolution, but because these policies are new and untried they have consequences that states could not themselves fully envision (Cerny P. G., 1993).

Ultimately, in the global economic 'order' (a notion that as we will see in chapter 2 needs to be put in perspective), finance is the 'nerf de la guerre', what Cox has called "the sinews of power" (Cox, 2006) and "constitutes the 'infrastructure of the infrastructure', the structural bottom line or most significant common denominator (although certainly not the lowest) within the international economy" (Cerny P. G., 1993, p. 17). The crux of the issue, in regards to its importance, is not so much that the global financial system is un-regulated, as it is unevenly and thus badly regulated.

Progressive re-regulation and de-regulation has not only changed the nature of modes of finance and trade on the global scene, but has comprehensively changed the structures of banking and finance itself, towards a greater level of complexity. When de-regulation responded to the need for a greater flexibility for private actors to have access to finance to invest and respond to technological change, the gradual shift has seen a phenomenal shift in investments in short-term investment to the detriment of long term investment, which has perversely allowed the finance structures to have for their main purpose not so much to finance investments in the real economy, as to finance speculation. This speculation has arguably less benefits for the global economy per se, as it has for the financial elite and the numerous funds within it. It only partially represents the redistribution concept that within the neo-liberal theory was meant to replace the state-led 'welfare policies', which organized redistribution at the detriment of an healthy free-market economy.

The reconfiguration of finance and capital flows has naturally redefined the roles and scopes of banks and financial institutions on the one hand as well as the international institutions mandated to regulate these flows on the international scene (IMF, World Bank, ...) on the other, and by extension (or reduction, as the case may be) the role of nation-states, which arguably have been seen as somewhat stuck in the middle. To be more precise, the regulatory changes and the emergence of the 'competition state' have favoured some actors within states (the finance and corporate sector) at the expense of others (namely in this thesis, the ordinary citizenry).

In relation to the former, although the new system, by increasing the level of international competition has indeed reduced the level of control of states on "their" banks, it has not diminished their responsibilities (Strange, 1990, p. 262). This point was particularly highlighted during the Global Financial Crisis.

2-The 'retreat of the state' in question

In International Relations (IR) and International Political Economy (IPE), the debate about the role of states and its supposed decline or demise in regards to the importance of global markets has thus been rich and rife. The purpose here is not so much at first to evaluate if indeed the state is in "retreat" as to examine the conditions that lead to the necessity of a renewed debate about the role of states in the global transformations observed in IPE in the last three decades.

A-The declinist view

It is widely accepted that the policy-making function of the state has been greatly challenged by the neo-liberal paradigm shift, which politically and economically accompanied the globalization process. But whether they lamented this process (Strange) or lamented its lack of progress (Ohmae), these analysis are marked by partial and incomplete analysis of the role of nation-states in the economy (especially in regards to the role of the post-modern states) and have left them very much open to criticism and subsequently their influence on the debate on the role of states, although persistent, has been explored, challenged and expanded.

Decline as design: "prescribing decline"

Kenichi Ohmae has famously theorized "the end of the nation-state" (Ohmae, 1995). Unlike Strange though, his demonstration is more based on *advocacy* for the state moving from "prime mover to catalyst" of the globalization forces and its de-regulating process than a close analyses of the process in progress. One of his prominent points was that within a nation-state trying to develop and benefit from the fluctuation of capital liberalised in the process of globalization, some regions within these states will have more opportunities, resources or enterprise spirit than others to develop and succeed against their international competitors. In that logic, only region-states could compete with their counterparts in the "borderless world", once freed from the necessary redistributive policies that the nation-state has to enforce to ensure the civil minimum to the rest of the country, that would necessarily impede progress and slow down development of the richer regions. But this was more of a pamphlet advocating the end of the social or redistributive state and its desperate attempts at capturing the positive energies of progress to share them with the multitude-, and lamenting the lack of progress thereof in too many stubborn states, than a comprehensive analysis of the actual processes at hand (Ohmae, 1995, pp. 126-136). It is worth noting that although his neo-liberal medicine is now mostly refuted by a large numbers of economists, his advocacy for the

development of region-states does sometimes find an echo in other parts of the world, and especially Europe, with the case of Catalonia in Spain or Lombardia in Italy for example. These developments are nevertheless only now made valid due to the existence of a supra-national common market at the European level which has been fifty years in the making, and made possible only at the bequest of the nation-states forming this economic union, after painstakingly long negotiations and treaties signed between nation-states, which had to carefully ponder the pains and gains involved. Furthermore, a close analysis of his hypothesis relies on the existence of a separate economic and political dimension of the nation-state, in which he recognized the importance of states in terms of security and geo-strategies, but their invalidity in the economic world. This dichotomy is nevertheless not sustained by empirical evidence and, in the case of Ohmae, was mainly made possible by leaving a certain degree of vagueness in considering the various levels of statehood in the world community (Hammarlund, 2005). Arguing that states are still valid in some field of world politics, but not in the economic field, pre-supposes that there is an over-arching economic order that allows national or sub-national economies to thrive and compete in a level-playing field. If this over-arching level-playing is the world economy based on self-regulating markets as seen through neo-liberal eyes, it is one of the purposes of this thesis to argue that this is a very flawed premise.

Ultimately Ohmae's point is quite ambivalent, as some of his prescriptions of what the state needs to do involve big structures and investments-thus not quite fitting the "small state" and the co-ordination of regions he asks for the state to monitor is close to federalism, does not come up with a very good replacement for the state. Like for many neo-liberals, before or after, contradictions should not detract from the goals. They do somehow encapsulate the fragility of the anti-state argument though.

Decline as a fatality? "Describing decline"

When Susan Strange theorised the "Retreat of the State" by analysing one of the major process of economic globalization as a shift from *state authority* to *market authority*, she was quick to ascertain that this shift had paradoxically "been in large part the result of state policies" (Strange, 1996, p. 44). This form of agency, compounded by her call on Braudel and Polanyi to suggest that in a historical perspective "the relation of market authority to political has never been stable for long, and that at different times and in different places the pendulum has swung away from one and toward the other and back again, often in ways unforeseen by contemporaries" (Strange, 1996, p. 45) indicates that this retreat was neither inevitable nor is it now ineluctable or even irreversible.

In the financial sector, Strange underlines how states authority shifted to the markets to respond to the growing need of Trans-National Corporations (TNC) for capital for investments necessary to the global expansion of the capitalist economy and the technological changes (among others) incurred by this process. To respond to the growing demand, the supply of capital had to become more mobile, and “these supply and demand changes take place, and take effect, in the market”(Ibid p10). Whether these changes, or the way these were to be implemented, were legitimate or the subsequent consequences, especially in terms of the gradual de-regulation of the financial and banking system, was actually envisaged by those states will be discussed later, but this process was first initiated at the state level.

B-The “non-declinst” view and the “resilient state”

The decline of the state in regards to the process of globalization has been put in perspective in many ways. Of particular salience are the points that have been made of the role that states have actually played in the transformations that have occurred since the collapse of the Bretton-Woods system, and a challenge to the validity of the states/markets dichotomy and the inherent reductive aspect of the processes at hand. These points, among many others, have highlighted the complexity of the relations between the state and the global economy and increased the scope of the debate.

Among those who challenged the declinist posture, Linda Weiss struck a powerful chord. By insisting on the “adaptivity of the state”, she denounced the view that states’ actions are necessarily pre-determined, especially in terms of ‘policy instruments’ at the detriment of ‘creative adjustment’, and the “image of states as passive victims of ‘transnational’ forces” (Weiss, *The Myth of the Powerless State*, 1998, p. 108). States have not only been the ‘midwives of globalization’, but retain the capacity to co-ordinate market economies, rather than subdue to market forces. There again, she makes the point that political forces within states make the policy decisions that will lead to liberalization of markets, for example, and these are mitigated not only by the original structures within which these policies are enforced, but also by the left/right (to put it simply) inclinations of the governments that implement these policies. The degree of liberalization, and the maintenance, or ‘creation’ of mitigating policies that will contain the neo-liberal aspect of some of these measures (the level of regulation for example) are still by and large within the control of governments. Furthermore, she makes the point of the ‘catalytic’² states to underline the capacity of states for creating alliances at the regional and international level, and with state actors as with non-state

² The term was actually first coined by Michael Lind (1992-National Interest (spring) 27.)

actors, to pursue their interests by not only resorting to their own resources, but by leading or joining powerful alliances. Regionalization, whether in its fledgling East-Asian or its more entrenched European Union variant, is one such example. Although these arrangements can imply some loss of control, a loss that would arguably eventuate if states acted alone anyway, states do initiate this shift to pursue perceived gains (and thus it does not shake off a power relationship), but the emphasis is put there in the fact that states with stronger internal domestic institutions (and thus stronger domestic political clout) are in a position to fare better. Although Weiss is a globalization-contradictorian, she acknowledges that “money markets are perhaps the only true face of global capitalism in the late twentieth century”. Weiss had the insight to imagine that the occurrence of a global financial crisis would put her theory to the toughest test (Weiss, *The Myth of the Powerless State*, 1998, p. xii). It has undoubtedly been put to the test in 2008, and the results are not good. Nevertheless, it is still possible to argue that it is not the concept of state institutional power that has lost that battle, as much as the political compromises with the neo-liberal agenda and the vagaries of domestic policies within states, sometimes through general passivity, blindness to the dangers of too much de-regulation or over-reliance on the strength of the ‘catalytic’ forces above, that have allowed the role of states to morph in ways that may weaken its role. It does not preclude the capability of states to reform and regain more control, as part of a process of constant transformation.

To give new impetus to the notion that transformation does not equate to ‘retreat’, research has sought to refute the validity of the states/market dichotomy as a reductive approach to state transformation (Kratke & Underhill, 2006). By putting the onus on firms, and the political and competitive resources they deploy to achieve the gains they seek, they broaden the scope of agency and participation of other compound market actors, where states and their political conflicts are active constituents of the market place, and market actors and their constituencies are participant in the wider process of governance. If the state has progressively delegated a number of tasks either to private bodies or international institutions, while maintaining its functions in terms of domestic political and all the tensions that entails, “what we have seen is not so much a retreat of the state in the face of market forces, but a transformation of the state in symbiosis with the transformation of economic structures” (Kratke & Underhill, 2006, p. 35). Be that as it may, the GFC may have ironically dented that domestic legitimacy, as much as renewed its necessity.

In a similar vein, Samy Cohen makes a salient point of his defence of “the resilience of the state”, that the transnationalist view that condemns the state to a mere political organization eroded in regards to powerful external forces increasingly beyond its control, has for effect to subdue the

political to the economic realm, and by extension reduce the importance of civil society within states and transnational phenomena over inter-states ones. He questions if it is the authority of the state that is contested or rather the state's political choices or failure to choose. He recalls how in France a 2000 Sofres poll indicated that 69 percent of the population thought it was for the state to draw up the rules for the economy and that business leaders regularly call on the government to intervene when their interests in the world are threatened by competition. The transnational declinist vision is in his view dangerous because it contributes to delegitimizing the state (Cohen, 2006).

It is above all the de-legitimation of the state, rather than its perceived weakness, that is the core of the problem. The structures are strong only in so far as the people who constitute them believe in them. In that regard, if not the state itself, the political and economic forces within the state have much to answer for.

C-Political and Sociological perspectives on the state of the state

In the following part, I argue that states have not so much been defeated by the markets forces themselves, but it is the discourse surrounding the neo-liberal ideology that states have allowed, with varying degrees of wilfulness, to pervade society as a whole, and thus defeated the image that citizens have of their own states. In a way, states have weakened themselves, not only in regards to external and structural forces, but in regards to their own citizens, and their representational component of the polity. It is not the states that the markets have disenfranchised from decision-making, but the true holders of the legitimacy of the states, the civil society in the form of the individual citizens. That retreat was not a natural phenomenon led by unequivocal forces, but a political construct of deconstruction.

The retreat of the state is not so much important in regards to structural weaknesses, but in so far as they are "more effectively accountable to forces inherent in the global economy. They were constrained to mystify this accountability in the eyes and ears of their own publics through the new vocabulary of globalization, interdependence, and competitiveness" (Cox, 2006, p. 40).

Some researchers, such as S. Sassen, have chosen to explore the transformation of the state less in regard to the global scene per se, but within states themselves. Observing the strengthening of power and legitimation of privatized and denationalized state authorities, she sees the emergence of an order which has growing governance capabilities and structural power, but advantages some actors and weakens others. "It is extremely partial rather than universal, but it is strategic in that it

has undue influence over wide areas of the broader institutional world and the world of lived experience” (Sassen, 2007, p. 39). This new private order is partially embedded in national institutional settings, but it is distinct from them and thus is not fully accountable to formal democratic political systems.

As Cerny has pointed out, referring to the Aristotelian concept of ‘politeia’ where the state refers to a “sense of organic solidarity that is more than any social contract or set of pragmatic affiliation; If there is an increasingly paradigmatic crisis of the state today, it concerns the erosion of this posited underlying bond” (Cerny P. G., 2006, p. 378). In many ways, the “politic” has not so much been defeated by markets, as much as it has surrendered, for many reasons, to the logic of markets, in what Gould had called “the democracy sham” (Gould, 2006). In many cases, the supposed demands of globalization and global integration, especially in finance, and economics at large, have been the catalyst, or rather the excuse for neo-liberal reforms. As Bourdieu noted “Everything contained in the descriptive and normative term ‘globalization’ is the effect not of economic inevitability, but of a conscious and deliberate policy, if a policy more often than not unaware of its consequences. That policy is quite paradoxical in that it is a policy of depoliticization. Drawing shamelessly on the lexicon of liberty, liberalism, and deregulation, it aims to grant economic determinisms a fatal stranglehold by liberating them of all controls, and to obtain the submission of citizens and governments to the economic and social forces thus ‘liberated’” (Bourdieu, *Firing Back: Against the Tyranny of the Markets* 2, 2003, p. 38).

As HJ Chang points out, in economy, all prices are ‘political’, thus the neo-liberal attempts to discredit democracy as a means to de-politicise the global economy, and remove all controls from the vagaries of politics (*Independent* Central Banks and *Independent* regulations agencies) are intellectually fraught. He insists, nevertheless, that de-politicisation may not be politically feasible, as “all countries have developed certain (at least implicitly accepted) ways to modify ‘politically’ market outcomes” (Chang, 2004, p. 96). In regard to the capacity of the state to retain legitimacy at the domestic level, it certainly needs to reclaim it at the transnational level too, at the risk of otherwise losing its capacity to be an effective forum for political action. The Seattle riots of 1999 were but an indication that the political debate moves to the street if domestic or international institutions do not seem to give representation. During crises of the magnitude of the GFC, states are the face of power, and the institution people turn to, either to demand action or express grievances.

Whether the state has indeed retreated or not, especially if not, it is crucial that as much as some form of ‘retreat’ are perceived by the general public, it needs to now be re-invented as a ‘tactical

move', one that could see it "claw back (...) its authority should political and market circumstances make this a desirable option" (Kratke & Underhill, 2006, p. 35).

If the changes observed in the post Bretton-Woods era have caused some irreparable damage, it is once again not so much to the state's 'operational capability' per se, but to its credibility. The GFC will here serve as a catalyst for the ability of states to react swiftly, under extreme duress, one might say, but also as a catalyst of all the political errors, from states and the international institutions representing them to the private actors they empowered, and the level of disarray of the experts delegated to oversee and institutionalize de-regulation and re-regulation, and the moment to kick start a 'paradigm shift'.

II-The GFC as the catalyst of a ‘paradigm shift’ : Paradigm lost?

"Though (scientists) may begin to lose faith and then to consider alternatives, they do not renounce the paradigm that has led them into crisis. They do not, that is, treat anomalies as counterinstances, though in the vocabulary of philosophy of science that is what they are" –Thomas Kuhn, 1962.

"Crisis? What crisis?" – Supertramp, 1975.

When Kuhn suggested that paradigm shifts will happen in science, because new problems encountered in the old scientific methods cannot be addressed by the old scientific methods, not because philosophers engage in an abstract indictment of science based on an inarticulate vision (Kuhn T. , 1962), he probably was not thinking of economics, which incidentally had arguably not quite yet attained the contentious status of an “objective” science. Nevertheless, the auspices of his critic of objectivity can now succinctly be used to denounce a fallacy that aimed at presenting the “new world order” in neoliberal terms and in the light of the global financial crisis (GFC) can be reviewed to assert that subjectivity must be reaffirmed, and the role of economic actors reconsidered, especially the state, and the subjective nature of its political power.

The mechanisms and failures that allowed the subprime crisis of 2007 to become a banking crisis of global proportions in 2008, are by now well-documented, whether through the scope of banks folly (Tett, 2009) or through the more historical perspective of an impending doom (Lybeck, 2011). The GFC threatened to bring the whole global economy to its knees, as the 1929 crisis had done, and although that scenario was averted to some extent, the global crisis is far from over, but is now polymorphous. In the USA and Western Europe, governments took exceptional measures to keep the banking sector afloat. These will be briefly addressed, so as to highlight the necessity of the responses that the GFC has forced states to offer, but as importantly to highlight that for many years, the financial markets had only marginally fulfilled their roles of financiers of the global economy to bring speculation back to a role which has already been proven detrimental to the global economy (a modern 1929 depression). By doing so, though, it has brought to the fore the debate on the role of states, their supra-national institutions, the markets, and incidentally brought a whole profession, the economists, to a real ‘crisis of faith’ and renewed perspectives on ‘paradigm

shift' and drastic re-structure of not only the financial sector but the global economy it is meant to sustain, with states as meaningful actors more than 'monitors'.

1-The GFC : From banking failures to global crisis: De-regulation on trial.

Although the GFC found its technical origins in 2007 with the so-called subprime crisis in the USA, the whole financial system had become a house of cards and a disaster waiting to happen after the successive acts of de-regulations started in many parts of the world in the 1980's and 1990's and can be said to have found its crucial apotheosis in 1999 by the repeal of the Glass-Steagal Act³ by the Clinton administration in the USA. Indeed, since its inception by the Roosevelt administration, the Act had aimed at avoiding a so-called "systemic collapse" in case speculation was going horribly wrong (which due to the inherent hazardous nature of speculation, it regularly does). Removing these guard-rails on finance would entrench the concept of self-regulation, in a sector that had already proven it was intrinsically quite unable to do so and unleash a fury of unbridled creativity in sources of speculative profit. The "derivatives" would prove the culmination of this process, somehow becoming a perversion of the "gales of creative destruction" that Schumpeter had described in days gone-by for the real economy, their creativity being only matched by their destructive power.

These derivatives originally seemed to respond to a sound logic: By amalgamating high-risk financial products with sound low-risk ones, one would mitigate the risks and put on the market products with some level of security (offered by the long-term investment components) while offering the possibility of a quick return on speculative markets. This was unfortunately a smoke-screen to hide a terrible quintessential truth of finance: Secure investments and high short-term profits are antinomial in the financial world. The occultation of this quintessential premise of the basic financial equation, which in retrospect defies both logic and knowledge, begs many questions.

The role of banking institutions themselves is somewhat beyond these debates. Although they have been labelled as "immoral" or other such epithets, these criticisms are misplaced as long as their actions were legal. It is thus a close look at the structures that surround their scope of action which

³ The Act separated the purely speculative branches of banks from their core business of investment and savings.

must be critiqued and addressed. The role of financial institutions in a larger sense and particularly of rating agencies is illuminating. These private institutions (Standard & Poors, Moody's, etc.) have the enviable position of having to rate banks, investment funds and their products, as well as the solvability of nation-states, and at the same time make profits from their own financial services. The fact that these agencies had given their blessings to the financial products that precipitated the financial crisis is naturally a serious cause of concern in terms of legitimacy. The fact that there is hardly any other arbiter with practical weight in the financial world is adding insult to injury. To summarize, these agencies had sanctioned a form of legal Ponzi scheme, which in itself warrants putting private regulation on trial. The fact is that the financial world was operating in a closed circuit, generating high profits and ultimately higher losses, while only marginally financing the real economy (the figures are debatable but often run at 80-90% for speculation versus 10-20% of real investment at the global level)

Ultimately, that leaves for at least one sound answer: the financial world could play this highly dangerous game in their Darwinian world, with one certainty. When the system would inevitably collapse on itself, it could not be left to collapse on the "real world" and the only solvable clients left, the Central Banks and their collateral, the nation states, would be the only ones left in a position to pick up the tab, which they did.

2-States response: Banks first, Fiscal austerity to boot

A-The state to the rescue in the USA: saving Wall Street

What has been duly noted is that when faced with a banking crisis of a magnitude similar to the 1929 crisis, some lessons of history had been learnt. The prospect of an absolute 'system collapse' was addressed, and to some extent averted. When the largest banks and largest US insurance company (AIG, which was not only insuring banks and their derivatives but also directly dabbling in speculative finance), the Treasury and the Federal Reserve got on board and started negotiations to salvage the US economy from total meltdown. Nevertheless, rather dedicated to a form of antisocial behaviours, and somewhat comfortable in keeping an upper-hand due to their status of being 'too big to fail', banks negotiated hard so as to have minimum regulations imposed on them in exchange for the bailouts (Bair, 2012). Nevertheless, the amount of liquidity put in by the government to salvage the banks amounted to massive, albeit temporary, 'nationalization' of the 'lungs' of the US economy and a level of government intervention not seen since the Great Depression (Stiglitz,

2010). In October 2008, the Bush administration set up the Trouble Assets Relief Programme (TARP), with a first stimulus package of \$700 million, which was followed by another package of \$1.3 trillion put in by the independent Fed to purchase several financial assets and make emergency loans in December 2008 (Navarro, 2012). It is hardly anecdotal to note that in order to be eligible for the massive bailout needed to save it from bankruptcy, one of the largest global banking actor, Goldman-Sachs, was able to accept a swift change of its status (Navarro, 2012). This shows that structural changes are possible, especially under duress, but these will not come from banks themselves, but political will. It has been widely regretted by economists, who advocated for these events to be a watershed of magnitude large enough to warrant significant changes in financial regulation in the US, that the Obama administration, sworn in in January 2009, only slightly changed regulations, but did not alter the structures in any way (Krugman, 2012) (Stiglitz, 2010). In particular, the fact that 'Wall street' was saved when 'Main Street' was largely left to save itself has been widely seen as a crucial error, with potential long-term social consequences which inevitably follow a consequent economic downturn.

Indeed, the occasion was lost, but not the paradigm. Incidentally, it has since then been reported that some of the large banks salvaged in 2008 by public funds have since then returned hefty profits in 2012.

A legitimate debate thus ensues on the reasons why the bailouts were only given to the banks when they also could have been given to home owners stuck in a 'housing bubble' which would have potentially been more beneficial to the economy in long-run. A bottom up action which would have prevented, or circumscribed the pauperisation of large chunks of the American middle-class and help boost consumption is economically sound, in theory. Instead, the top-down saving banks mainly allowed for a return of speculation, which translated into profits by banks while actually doing very little to avert the economic downturn. Indeed it saved the banking sector, and allowed the same banks to pay back, at least some, of the money lent by the state. Nevertheless, because these profits are seldom directly injected to boost the real economy, but recycled in the speculative process, the initiative was left to the Fed to use the age-old, and risky strategy of unlimited quantitative easing, "printing money" to promote a return to economic growth. Indeed, the process of saving banks was faithful to capital orthodoxy inherited from 90's-2000's although the inherent 'trickling down' effect has largely been shown as not being economically sound, in practice.

If we accept that 'saving people', in economic and social terms, may be seen as antithetical to the American psyche in its relationship with the role of the state, in the USA the state has specialized in being massively interventionist for the protection of industries, especially military, agricultural and,

when needed, the financial sector. Some nevertheless argue that it is also actually very rational in capitalist terms to allow consumers to have money to spend to keep the economy alive and foster growth. That this should not be considered as one of the primary roles of the state in the USA is comprehensible, in a philosophical and structural sense, although since the USA is the fountainhead of global finance, many already lament this 'opportunity cost' of sorts.

The debate on the role of the state took another turn when the financial crisis spread to the Euro-zone and morphed into a 'sovereign debt' crisis.

B-The state to the rescue in Europe: for whom the bell tolls

The inherent consequences of an integrated global financial system became evident when panic spread to Europe in 2008/2009. There too, many banks had become entangled in derivatives and speculation which had become the hallmark of banking. Nevertheless the political mindset has always kept marked differences from the US, with already stronger regulations inherent in the Euro-system, better separation of speculative and credit functions within institutions, and a stronger discourse against the erratic nature of global finance. From the outset, French President N. Sarkozy and British Prime Minister G. Brown for example, called for stronger regulation, but there was an immediate fallout on the reach that these should take. Discourse was cheap but some of the measures could be costly. Sarkozy's call for a taxation of speculation encountered immediate resistance from London, and highlighted the strong divide between "Anglo-Saxon" liberalism, and a British economy that strongly depended on free capital flows, and a somewhat more financially conservative European mainland, whose economy had kept stronger ties with industrial and agricultural production to sustain its economic power. Beyond the drama that was unfolding in Europe, this quarrel not only outlined the ambivalence of the dependency of states in regards to finance and the practical ambiguity of the inherent lack of sense of right/left political subjectivity constricted by economic structures rather than original ideological divide. A Labour government in Britain was opposing political interference with "haute finance", and a right-wing government in France was offering an apparently strong discourse against the vagaries of neo-liberal de-regulation⁴. This was all to become a moot point anyway, when quickly in 2008, the troubled Euro-zone had to turn its attention on not only bailing out its more compromised banking institutions, but also save itself by bailing out entire countries. Regulation could wait when monetary orthodoxy prevailed. It is not to say that political action was absent. On the contrary, government action was crucial to

⁴ A point explored more in detail in part III.

circumscribe the extent of the crisis. The scope of action, though, was limited and largely constricted by the structures of finance and the problem of sovereign debts.

Some European countries, which for different reasons had for some years been teetering on the verge of disaster, fell into deep depression (Greece, Portugal, Spain). In the case of Greece particularly, general public perception was that of the results of political ineptitude, which it was to a large extent, but largely compounded by the inefficiency, or complicity, of European union financial structures and the ability of markets to speculate on the state's failures. Indeed, the Greek state has for years been plagued by a grossly inefficient fiscal system, a political class at the mercy of the private actors (shipowners or a tourism industry grossly functioning outside the tax system), but major European banks, companies and financial institutions (especially from Germany and France) had been feasting at the banquet. The chain reactions following the collapse of the mechanisms of alleged self-regulation of the speculative system, covered up by European institutions had threatened the whole European edifice (Aglietta, 2012). In a bizarre twist, the Greek people were made to bear the responsibility and foot the bill, by any means necessary. In a process that, similarly to the American example, was meant to prevent the banks from collapsing, and would be applied to other European countries in need, International and European institutions (IMF and ECB) would step in, but the onus would be put on the states to pay back, worsening the sovereign-debt issue and raising the spectre of "austerity": A thrifty state asking its population to pay the bills accumulated by a deficient banking and regulatory system.

3-International Institutions: Conflicting discourses and practice of the IMF?

The International Monetary Fund (IMF) has gone through its fair share of soul-searching after the Asian Crisis of 97-98 and the discredit that followed the failures of the conditional policies on countries it was bailing out. This crisis of faith was compounded by the rise of the "Alter-globalization" movement which reached an apotheosis during the Seattle riots of 1999. A philosophical and political shift could be observed in the early 2000's. Exit the neoliberal followers of M. Camdessus, enter the European Social-Democracy symbolized by the nomination of D. Strauss-Kahn, a so-called "elephant" of the French Parti Socialiste, at the helm of the IMF. The concomitant critics of some of the economists closely linked to the IMF and the World Bank, especially J. Stiglitz,

who gathered a very real media and popular interest in the wake of the Seattle incidents (and the Davos meetings) also fuelled the wave of indignation.

The GFC saw the IMF come back to prominence on the global scene. This was actually quite logical since it also marked a return of the IMF to the original core mission of this institution, originally created to serve as a backer for western countries in case they encountered momentary cash-flow issues and needed bail-outs to re-invigorate the economic machine. Where it differed from its core mission, and there the debate becomes ideological again, is that the bail-outs were still submitted to extensive forms of 'conditionality'. This was especially evident in the bail-outs of the Euro-zone countries hit the hardest by the GFC: Greece, Spain and Portugal. The "austerity" measures imposed nearly brought Greece to its knees and on the verge of political collapse, after an economic one. Its first prescriptions, as part of the "Troika" (with the European Commission and the European Central Bank) were quite "conservative".

The IMF has since seen shifts in its views of public policy to support growth to help national economies pulling from recession. Moving away from their "one size fits all" policies that had so monumentally failed during the Asian crisis of 1997, and proved also quite costly (in human terms) to the Eurozone countries it bailed out. The IMF seems to be trying to adopt a more amenable tone to public investment that would accompany fiscal orthodoxy ⁵.

4- 'Economicism' in crisis: For a return of politics in economy?

A paragraph about the failing of 'economicism' at the macro-level to prevent a crisis of the magnitude of the GFC does not have the purpose of finding scapegoats in retrospect, naturally. Similarly, grouping a multitude of theories and individual economists under one such banner is naturally simplistic and intellectually fallacious. Nevertheless, in a quick study of the rise and fall of this "science"⁶ it seems important to highlight how political action of states at the macro-economic level became increasingly difficult in the past few decades.

The neo-liberal emphasis over the global economy that has somewhat taken over the world in the last decades had heavily constructed its power on the establishment of macro-economics as an exact science. Like most exact sciences these days, the arduous litany of equations are unintelligible to most, and thus need to be simplified for the masses in ready-made slogans. More freedom for the

⁵ Ben Clift on http://www2.warwick.ac.uk/fac/soc/pais/research/multimedia/videos/ben_c.mp4

⁶ Its rebirth is explored in part IV.

markets will ease the flows of finance; these will inevitably spill over to the multitude. The orthodoxy ended up being defended and coordinated at the highest levels, through International Organizations and to some extent by a profession which apparently was flattered to be at last revered as the lay prophets of tomorrow's world, just as their chemist and physicians colleagues had, with a lingering and meaningful difference: Hard sciences are not encumbered by ideology but more importantly cannot afford to establish theories and only at the end realize that crucial primary elements have not been considered. More precisely, they had been wilfully ignored. The persistent, but ideologically dubious, efforts of neoliberalism to sustain its scientific base through an apparent rejection of political interference and the dismantling of the state's apparatus of regulations and control artificially left in the shadows some of the most important actors to focus on the processes. Talking about monetary policies and the roles of institutions which had "replaced" the state, C.A.E. Goodhart noted that "the standard macroforecasting and analytical models used up until 2007 defined no role for banks, financial intermediaries, money, or default and risk. Precisely how the economics profession allowed itself to be sidetracked into this extraordinary dead end will be a subject of fascination to students of the history of thought for decades." (Goodhart, 2010, p. 78). Incidentally, the elevation of economics as a *hard* science by the creation of a Nobel Prize in the 1970's was a symbolic sanctuarization. The tyranny of statistics and complicated algorithms helped alienate the masses from the fundamentals and transform this eminently social science into a reserve for the elite. Do not try to understand what we are doing, it's too complicated, but believe us, it's for the greater good. Case closed? Not quite.

The return of Keynes, and some fundamentals of macro-economics, to the forefront is thus not a surprise. The "saltwaters economists" have had a field day after the GFC, now with some empirical evidence after 30 years of failures of the neoliberal orthodoxy of the Chicago school (Krugman, 2012). There is nevertheless a farcical tendency of some neoliberals to blame 're-regulation' for some of these failures (Lepage, 2009). We will quietly gloss over the fact that it sounds like a reminiscence of the argument that communists used in 1990's ("It didn't work because it was not done properly, it's not the theory but the practice") we will close this apparently vengeful paragraph by quoting an economist, H.J. Chang, when he says that "Good economic policies do not require good economists" (Chang, 23 Things they don't tell you about Capitalism, 2010). In the case of the magic swindle that the GFC had become, serious lawyers should do the trick. More seriously, the GFC made it clear that, to paraphrase George Clemenceau, economics was too serious a matter to be left to economists and that the same could be said about finance. The grave consequences that the failures highlighted by the GFC have had on the citizens of the heavily indebted states plead in favour of a return to greater political control on the workings and excesses of international finance.

5-Of the necessity of de-deregulation and re-regulation

In the wake of the GFC, conspicuous in most accounts is how complex the financial products had become, a complexity which, as most accounts testify, had by and large escaped the realm of consciousness and understanding of many bankers themselves, and, by extension, the level to which the global economy was at the same time still dependent on a theoretically simple logic of offer and demands, and in parallel dependent of capital flows which had become so complex that most experts involved in regulation had basically resorted to have a general understanding of these mechanisms, and not bother too much about the details, as long as computerized risk-management systems indicated generous returns.

The purpose of this thesis is not to assert that the GFC marks the beginning of a paradigm shift, as the signs of this are actually faint, as much as it, in the least, warrants for the conditions of a serious questioning of the workings of the current one. Before imagining “another world”, it pays to look at the present one and its failures. In that context, the relationship between global finance and the western states is crucial. Five years in the Crisis, and despite some casualties, the large financial institutions are doing very well, while states and their economies, to a varying degree, are still in tatters. The ramifications of the GFC have shown that the problems of de-regulations and re-regulations are yet to be addressed.

In terms of financial regulations per se, the Basel (I, II and III) agreements showed their deficiencies, especially in regards to “derivatives”, the effective fire-starters of the GFC. As B. Eichengreen noted, although the Basel Committee members were aware that these were often entirely unregulated, “awareness does not equate to capacity to act” (Eichengreen, 2010, p. 112).

III- A case study : France (and by extension the EU)

“L’etat ne peut pas tout” -Lionel Jospin (2000).

1-Why France?

France makes for an interesting case-study in a critique of the global capitalist system in the wake of the 2008 Global Financial Crisis for many reasons. The most symbolic one possibly being the shift in discourse that could be observed by the then right-wing government of president Sarkozy, which had seemed to take the financial downturn as a personal slap in the face and a salutary wake-up call. Then Minister of Finance (and present head of the International Monetary Fund), Christine Lagarde, has since asserted that the 2008 downturn had provoked a significant crisis of faith in their neo-liberal ideals and their confidence in the sustainability of the global financial system⁷. In reality, the neo-liberal ideals had never been endorsed by a majority of French people anyway, and the lack of confidence in the global financial and economic system by the general public largely pre-dated the GFC⁸. The cold shower of the GFC resonated in a country where polls often indicate a population declaring itself doubtful of the benefits of globalization⁹, mainly because of its association with the most negative aspects of neo-liberalism, which the GFC only made more threatening. Like most European governments in place in 2008, the Sarkozy government was ousted in the next available national election¹⁰. Indeed by 2012, despite a change of rhetoric, they had been unable to find long-term answers to the French “malaise”¹¹. This arduous mission would be democratically delegated to the new government of Parti Socialiste (PS) candidate Francois Hollande, who found himself in a position to follow up on a strong “anti-finance” platform with a five year mandate to implement it.

⁷ See C. Lagarde interview for Al Jazeera/CBC’s documentary “Meltdown” (2010). This programme accessed from: <http://www.aljazeera.com/programmes/meltdown/>

⁸ See “Le capitalisme n’a pas la cote chez les français” (Capitalism not rating high for the French), Liberation, (04/11/2005). Retrieved from http://www.liberation.fr/evenement/2005/11/04/le-capitalisme-n-a-pas-la-cote-chez-les-francais_537861.

⁹ See “Plus ça change, plus c’est la même chose: The evolution and the structures of attitude toward economic liberalism in France between 1990 and 2008, A. Degeorges and F. Gonthier, French Politics Vol. 10, 3, 233-268.

¹⁰ This should by no means be considered as the only reason for Sarkozy’s defeat nevertheless, but one of the factors that mattered, in the partial context of this thesis. See “Sarkozy, les cinq raisons de la défaite” in Le Journal du Dimanche (06/05/2012). Retrieved from <http://www.lejdd.fr/Election-presidentielle-2012/Actualite/Sarkozy-les-cinq-raisons-de-la-defaite-508858>.

¹¹ The concept of French ‘discomfort’ is not new (see Régis Palanque, *Le Malaise Français*, Seuil, Paris, 1970). But it has certainly not been cured, and now transformed into a ‘mystery’ (see in particular the recent study that attempts at understanding the dichotomy between economic and social realities and the perceptions of them in Hervé Le Bras, Emmanuel Todd, *Le Mystère français*, Seuil-La République des idées, Paris 2013).

If France makes for an interesting case-study, it is not only for its complex relationship with the process of globalization and its response to the financial meltdown of 2008, but also for its own complex relationship with the role of the state. The second major economy and a political powerhouse in a troubled European Union, one of the other major concentric circle that defines France's place in the world, France is first and foremost a country ill at ease with itself. The role of the state, and the perceived erosion of the political power in regard to global forces is the fodder of endless passionate, and sometimes dispirited debates. It is why a quick study of the reality of the complexity of the role of the state in the French economy, but even more importantly in the French psyche, seems like makes for an obligatory starting point.

From 'Dirigisme' to 'Post-Dirigisme': French Flair in the Global Fair and a perspective on the changing role of the state.

France is a country of many 'paradoxes' and the most famous one, which argues that red wine is surprisingly full of health benefits, is not necessarily the most surprising. In political economy, too, misconceptions abound about the role of the state, not the least in France itself, where expectations born out of the state-led form of capitalism that was established to reconstruct France after World War II have clashed with the reforms started in the 1970s and 1980s to move France along the changing global economic and financial order. The role of the state has undoubtedly morphed, towards a less interventionist practice and more liberal inclusion of market forces, but the conditions of these changes cannot easily be reduced to a simple 'retreat of the state'.

Indeed, one of the great French paradoxes is that, as Hancke analysed, the extensive deregulation started in 1984 "did not result in a competitive capital market characterized by a high merger and takeover activity, but a highly orchestrated system of cross-share-holdings, which were formed precisely in an attempt to prevent rampant competition. In short, none of the outcomes conventionally associated with a market-led adjustment process can be found in France" (Hancke, 2001, p. 312). But if the state has not apparently subsided to market forces, the extent of its reach and power is ambiguous, and this is explained by the particularity of French capitalism. As Hancke explains: "Understanding adjustment in France over the last two decades requires going beyond the state-market opposition that is central in political economy, and bringing in firms – in the case of France the large exporting companies in particular – as the key actors" (Ibid). The reasons for this are intrinsically simple. French capitalism "entails a system whereby the state, banks, and large firms are intertwined through a complex elite network" (Ibid). This elite becomes a culturally endogamous class, educated in a handful of "grandes ecoles" and becomes the "state nobility" described by

French sociologist Pierre Bourdieu (Bourdieu, *State Nobility: Elite Schools in the Field of Power*, 1998). According to Bourdieu's theory of class, somewhat different from Marx's, this class, like others, is not only marked by economic and social capital, but also cultural capital. This creates in France a bourgeoisie of "serviteurs de l'Etat"¹², whose careers will, even when they do serve or work in private firms, often keep them closely associated with the political class and/or French state companies and French interests¹³.

One important consequence is that markets are not all-powerful, and although foreign investments have flown in since deregulation, firms are still strongly associated to the exercise of power in France. It is with a tinge of provocation that one could say that in many regards, the industrial and financial elites represent 'a state within the state', and thus the "lobbying a la française" has an extensive reach.

Despite developments in the French economy and a stronger impact of foreign capitals, which have seen an arguable shift to a perceived more anglo-saxon regime, France retains specificities that despite high corporate profitability and a global presence for its major firms (Banks, insurance, automobile etc...), it has been stuck in a crisis for over 30 years, with an unemployment rate never below 7%, and often much higher, and an ever-growing divide between the corporate elites and the workforce. Although, following the global trend of economic neo-liberalisation, the state has enacted reforms that have seen its role shrink in terms of control of financial flows and industrial policy (with important caveats explained below), it is still expected to act or partly held responsible for its inability to do so, in a world where French TNC's can make huge profits from globalization and their own global presence in markets where they are predominant, but the workforce at home sees only the down sides: most crucially, the perceived threats of competition for employment from countries where labour is cheaper. When French industry has been able to jump on the globalization bandwagon, whether in industry (military or car manufacturing) or services (banks and insurance), often with strong state backing, as Ben Clift has shown, these structural changes in France towards free-markets cannot be fully understood without paying heed to 'ideational' factors that underpin the role of the state (Clift, 2012). The state still exerts influence, although more diffuse, through its elite that move between private and public (but retain a certain "idea of France" that intellectually motivates some corporate actions) a more diluted aspect of how the state 'evolves' within free-market structures.

¹² *Servants of the state.*

¹³ For an 'outsider' critique of the role of elite schools on the French economy see Peter Gumbel, *Élite Academy: Enquête sur la France malade de ses grandes écoles*, Denoel-Impacts, Paris, 2013.

There is little exaggeration in asserting that in France, “la Republique” (thus the state) has replaced God or the King and that democracy has become the Providence¹⁴. At the same time, the process of globalization has left the state, in practice, with more limited means, creating a self-perpetuating public disillusionment with a state which should, by essence, be able to solve all the problems, in a global system which has limited its margins of action. A dichotomy ensues between a state that should evolve and adapt, and a polity that does not trust the neo-liberal models (especially Anglo-Saxon). In economy, too, this has major consequences, one of the major factors of capitalist functions, with capital and labor, trust (or confidence) is lacking. The perceived collusion between the political elites and the industrial and financial elites (ultimately one and the same) has transformed France into one of the most “anti-globalisation” country in the postmodern world. Indeed if the ‘post-dirigiste’ restructuring of the market economy has protected French firms, public or private, from direct international competition at home, it has somehow failed to offer the same level of protection to a workforce, especially in the private sector, which has constantly been asked to accept the “global realities” of international competition. This dichotomy in discourses and practices has somehow greatly enhanced the perception of a divide between the elites and the workforce. The state has been able to keep on protecting the elites (which incidentally have greatly gained from corporate globalization, the exponential growth of CEO’s salaries towards international standards arguably the more emblematic symbol¹⁵) when the ‘populace’¹⁶ has not benefited to the same degree from the process of globalization and been asked to adapt, but as opposed to its elite, this adaptation often took the form of ‘levelling towards the bottom’ and a threat to “acquis sociaux”¹⁷. In that sense, it is very tempting to paraphrase Orwell and assert that faced with the process of globalization “some are more equal than others”. This can largely account for a new form of ‘French resistance’ at the grassroots level. The parallel growth in profits of French luxury firms and ‘hard discount supermarkets’ have put a smile on the face of only a relatively small minority, on the

¹⁴ A striking metaphor made by philosopher Cynthia Fleury in French current affairs/social debate programme “C dans l’air”, France 5, 30-01-2013.

¹⁵ After 3 years of negative growth of CEO’s salaries following the GFC, 2011 had seen a return to a staggering 34% of increase in salaries of the CEOs of the French CAC40 companies (A figure which did not seem to correspond with the slow or inexistant French economic recovery or the performance of some of these companies). See “34% de hausse pour le salaire des grands patrons en 2011” on <http://www.rtl.fr/actualites/info/economie/article/34-de-hausse-pour-le-salaire-des-grands-patrons-en-2011-7743734437>.

¹⁶ To quote Ben Clift. (an interesting term as it can refer to a 1789 type divide between elites and population).

¹⁷ This French term usually refers to ‘social benefits’ granted by the Welfare state and considered as non-negotiable, the term implying that these have been ‘fought for’ and are now part of a ‘corpus’ protecting workers.

stock exchange market mostly, and do not attest to the same “*vécu*”¹⁸ and sense of customer satisfaction, both with the process and the product.

In the public eye, globalization is often considered and apprehended through its neo-liberal aspects, and with a large number of the population having a rather negative view of globalization, France does not feel in a great position to adapt. In a similar vein, like in many other countries around, European integration has been more and more felt with utmost suspicion. Recent attempts at exploring the concept of ‘French mystery’ and the general pessimism in France show that the limits of manoeuvre have as much to do with domestic complexities as global pressure¹⁹.

This only confirms the assertions defended in chapter one, that the state is not in structural decline, and sought an idiosyncratic form of structural adaptation to markets, but has made political choices that, even though they are still coherent with the traditional ‘ideational’ form of state intervention (albeit in a more subdued form) and a defence, at the highest elite level, of protection of French interests, its inability to secure the same level of protection to the whole polity (structural unemployment and a persistent degradation of French industry among the most prevalent symptoms) has indeed largely discredited its strength in the national psyche. It has not lowered expectations, but lowered the credibility of the political class, from the left and from the right. A return to a stronger and more meaningful political action is thus crucial.

Since in France, the President of the Republic is elected with the universal suffrage, in an election which is in the constitution completely independent from the election of the *Assemblée Nationale*²⁰, the presidential election is widely considered as the “rendez-vous” of a leader with the nation, and has an immense symbolic value, as the catalyst of the expectations of the polity and the expression of a five-year project for France. Whatever the practicalities, the President embodies the power and prestige of the state, and to measure up to this position, the candidate must present a programme, which although it is not binding, has to embody a world of all possibilities. These are often over-inflated and for the few months of the campaign, oblivious to the global structures that will be claimed to limit the possibilities of domestic reforms, after the elections.

¹⁸ *Awareness or experience.*

¹⁹ For a critical foreign point of view on this ‘mystery’ see also Timothy Smith, *La France injuste. 1975-2006 : pourquoi le modèle français ne fonctionne plus*, Paris, Autrement, 2006.

²⁰ Since 2002, the presidential mandate has been reduced from seven to five years, to correspond to the length of the *Assemblée nationale*, thus in practice the elections of the *Assemblée nationale* are called straight after the presidential election, so as to offer a more coherent legislature that will correspond to the mandate of the executive.

Himself an “Enarque”²¹, Francois Hollande is undoubtedly at face-value, “un enfant du serail”²² and has the task to zig-zag between high expectations on one hand and ‘the possible’ on the other, make promises that will re-invigorate confidence in the state, and take measures that will reassure people that the state is not in retreat.

2-The election of Francois Hollande in 2012: A strong discourse against the rule of finance and for the return of the ‘political’

During the 2012 presidential campaign, Francois Hollande, then candidate for the Parti Socialiste, had adopted a very menacing tone towards ‘finance’ when setting up a plan to combat the financial crisis. In his landmark Bourget speech, he declared:

"In this battle, I will tell you who my adversary is, my real adversary. It has no name, no face, no party, it will never be a candidate to an election, it will thus never be elected. It governs nevertheless. This adversary is the world of finance. Under our very eyes, in twenty years, finance has taken control of our economy, of society, and even of our lives. Nowadays, it is possible to move breathtaking sums of money in a split second, to threaten states.

This ascendancy has become an empire. The crisis which has taken hold since Sept 18 2008, instead of weakening it, has re-invigorated it. (...) The banks, saved by states, have now turned against the hand that fed them.(...) Speculative funds, far from having disappeared, are still the vectors of destabilisation that threatens us. In this way, finance has freed itself of all rules, of all moral standards, of all control”²³.

Hollande was leading an attack in a field where his predecessor had been found lacking. Despite a consequent set of bailouts and “For all Sarkozy’s bluster about the need for a re-moralisation of capitalism, and the morally bankrupt excesses of finance capital, in practice very few strings were attached to the capital injections into French banks” (Clift, 2012, p. 584). Naturally meant to chastise what was considered as only a timid reaction, despite decent rhetoric, from the incumbent

²¹ A graduate of the prestigious and elitist Ecole Nationale de l’Administration (ENA).

²² A product of the ruling elite.

²³ F. Hollande “L’integralite du discours de Hollande au Bourget” in Le Monde (22/01/2012). Translated by author.

President in the years following the beginning of the GFC, this war-cry was followed by a statement of intent on how to 'master finance' and the main measures to 'combat' its excesses and dysfunctions. These included what veteran Parti Socialiste statesman and ex-Prime Minister Michel Rocard has described as "the urgent, if not even the essential" measures: "Sterilize" tax havens, a return to the separation of speculative and investment functions of banks, give a public status to credit-rating agencies (in his Bourget speech, Hollande advocated for the creation of a European public credit-rating agency) and a complete ban on derivative financial products disconnected from 'real' economy²⁴. In a book, incidentally prefaced by Hollande, Rocard had widely criticized President Sarkozy's practical reluctance to challenge speculation and the necessity of reforming the possibility of creating derivatives, and their collusion with regular investment banking functions, noting that all major crises in history have not only been caused by collective disarray in times of financial uncertainty, but when new financial products had escaped public scrutiny (Rocard, 2012). To avoid the possibility of new crises, the state thus needs to watch over markets and keep an eye on financial innovations with huge risk potential.

The tone of Hollande's discourse was naturally forceful and militant, fitting the context of a presidential campaign. It was nevertheless expressing a common concern about the despondency of the state, somewhat prevalent in France. On one hand, it was echoing the analysis of the 'declinist', that finance had for too long imposed its own rules, somewhat disconnected from the 'real economy' and not working for the public interest, nevertheless forcing governments to pick up the tab. On the other hand, it attempted to assert that this state of affairs was not a fatality and political action was necessary, and possible. Always the cautious man, in his speech Hollande did underline that this would be "a long struggle, a hard task", but that the response should start "at home" and that the state had an arsenal of weaponry, its ability to use legislature to curb the excesses of finance.

A major promise and an axis, beyond the 'urgency', to curb the excesses of finance and speculation, was a call for the implementation, at the European level, of a tax on financial transactions. The tax on financial transactions can be seen as a major, symbolic if not structural, shift of the perception of the deregulation of finance and its perverse effects. Indeed the idea of such a tax had been uttered a long time ago, notably by Nobel Memorial prize winner James Tobin in the 1980s. For a long time the call for a so-called Tobin tax had been the quasi exclusive domain of the alter-globalization movement and scornfully rejected by political and financial elites as not only ideological and

²⁴ See "Michel Rocard: La politique exige beaucoup de mensonges" in Liberation 02/12/2012. Retrieved from http://www.liberation.fr/politiques/2012/12/02/michel-rocard-la-politique-exige-beaucoup-de-mensonges_864606

impractical nonsense but a systemic threat to market efficiency. Its endorsement at the highest level (Lord Turner and N. Sarkozy for example) after 2008 was thus not anecdotal. A tax on financial transactions had actually been adopted, and then cancelled in Sweden. This attempt arguably highlighted one of the major limits of its practicality; one country adopting it would put its possibility of accessing foreign investments largely reduced or endangered. This tax makes sense only if a large amount of economically determinant countries adopt it. Enter the European Union, and Francois Hollande. It does somehow entail though that ultimately, to be fully encompassing and efficient, in the age of global finance, any meaningful measures taken by states will have to eventually gain momentum by being supported by a significant number of countries as well as International Institutions.

3-More state: Electoral promise or reality?

The Parti Socialiste has for years been somewhat stuck in a political conundrum. It is often argued that because it has not done its 'Bad Godesberg'²⁵, it has been leaving a lot of space for criticism, both from its left that pillories its acceptance of market logics and from its right for its perceived stubbornness at choosing a 'statist' approach (towards industrial and labour policies especially) and a lack of 'visibility' in its political aims and actions. In that regard the Jospin government of 1997-2002 had been a clear example of this ambivalence, if not dichotomy. Its labour policies of reducing the working week to thirty five hours paid thirty nine and state-sponsored youth employment schemes were infuriating the right and seen as a stubborn ideological refusal to let the market regulate investments and employment through its 'natural laws'. In parallel, its policies of privatizations and inability to prevent some symbolic "licenciements boursiers"²⁶ alienated parts of its working-class constituency. The price was paid in flesh during the presidential election of 2002, when in the first round, a significant part of the working-class vote opted for the Marxist left or the populist and nationalist right-wing Front National which saw its candidate Jean-Marie Le Pen qualify for the second round at the detriment of Jospin, one of the most symbolic political 'cataclysm' of the Fifth Republic.

²⁵ Bad Gotesberg refers to the German SPD program of 1959, where the party renounced the Marxist doctrine to formally adopt an acceptance of the market economy and endorsed Social-Democracy.

²⁶ These usually refer to massive layoffs or closures of factories that are not technically bankrupt, but correspond to industrial choices made to optimize shareholders return by cutting operational costs or re-deployment of jobs overseas.

In that regard, when during a massive lay-off at the iconic Michelin tyre factory in 2000, Jospin famously declared “l’Etat ne peut pas tout²⁷”, he had put the finger on a most interesting conundrum for the Parti Socialiste, and possibly one of the most misunderstood opportunities to highlight what the state could still do. This had then been construed as a proof of the decline of the state, and most importantly for Jospin himself, through the admission that even a Socialist government could not prevent a company from laying off workers, a sign that the politics had lost the fight against the rules of the markets. Indeed, the state could not prevent lay-offs, in a company that it had no stake in anymore²⁸. But the emphasis should have been on the “tout”. The state cannot do everything anymore, but it was a crude admission that the world had changed, a process that France has found unpalatable, for reasons that are partly explained above. Lionel Jospin did not get a chance to explore as a President the level of what the state could still do. Arguably this mission now has been given to Hollande.

Incidentally, the history books have not quite yet recorded that during its tenure, the Jospin government had made considerable progress in balancing the books and addressing the sovereign-debt issue that the precedent and subsequent right-wing governments had been extremely adept at worsening²⁹. It is not anecdotal though, in the sense that in a country ruled by its elites, and where the political divide has become blurred, since both major parties are closely linked to these elites, it is through the main axes of fiscal policies and “activations” (measures taken by governments to promote employment policies) that the remaining difference between the right and the left subsists, in economic policies³⁰.

The trauma of the 2002 presidential election is a major pressure on the discourse and actions of the Parti Socialiste. In that regard, announcing an ‘assault’ on global finance in a country doubtful of the benefits of globalization was a safe bet. Its announced fiscal attack on the salaries of CEO’s was the cherry on the cake of popular expectations post-GFC. President Sarkozy had become somewhat unpopular for many reasons. Not the least for his close friendships, if not collusion, with some of the richest CEOs of the CAC 40³¹. Although a capital symbolic gesture in the campaign, Hollande’s

²⁷ This can be translated as “the state cannot do everything”.

²⁸ It is often referred as the symbolic moment when Jospin lost the forthcoming presidential election.

²⁹ For a defense of this argument see “Sur la dette publique : la gauche moins mauvaise gestionnaire que la droite” in *Le Monde* (20/01/2012). Retrieved from http://www.lemonde.fr/idees/chronique/2012/01/20/sur-la-dette-publique-la-gauche-moins-mauvaise-gestionnaire-que-la-droite_1632201_3232.html.

³⁰ I need to insist on the fact that I am here only talking about economic policies. A stronger and more pronounced divide still subsist in what is called “societal” issues for example, as the current debate on gay marriage illustrates.

³¹ “Cotation Assistée en Continue”(CAC), the CAC 40 is the benchmark stock market index of the most valuable 40 companies of the Paris Bourse (stock exchange market).

announcement that a new and temporary, rate of 75% tax on incomes exceeding a million of Euros per year would be enacted as a 'solidarity' tax, was a powerful leftist message, sent to re-assure about the PS left-wing credentials and its distance with the elite.

The election of Francois Hollande in May 2012 and the subsequent legislative majority in the Assemblée nationale won by the Parti Socialiste in June 2012³² arguably placed France as the major economy of the Euro-zone with a clear long-term mandate. After spending the first couple of months following his predecessor in seemingly trying to broker deals between Germany, the 'Troika' and the Mediterranean countries (Italy-Spain-Greece) to 'save' the Euro-zone and dispel the possibility of a "Grexit" that could potentially put an end to the Euro. It was also an attempt for France to promote its European vision and re-orient Europe's political Economy. Unlike his predecessor, Hollande did not consider the Euro crisis over (Clift, 2013).

Contrary to his promise, he didn't renegotiate the European Fiscal Stability treaty of December 2011. He did, though, negotiate the addition of a Growth pact, promoting what was going to become one of Hollande's mottos: "Faire des économies, oui, oublier l'économie, non"³³. Not anecdotal is the core belief, which underlines the Keynesian tendency of the Parti Socialiste that austerity measures can be conceived only in an effort to curb sovereign debts, but will not work if not accompanied by measures that foster economic growth, a view that deeply divides European leadership (and originally especially faced a strong German and ECB resistance), as the European talks have shown in 2012/2013. This is a view nevertheless more recently and clearly endorsed by International Institutions, notably the IMF³⁴.

This activity in Europe, responding to the ever-present urgency of preventing the Euro-zone from collapse, made him fewer friends at home, and his position in the polls quickly dropped, due to a perceived lack of action. It is thus with the same impatience and French sense of priority that we will ignore chronology and first look at the tentative implementation of some of the significant measures about regulating banks and finance announced during the presidential campaign.

³² The PS, despite a majority of seats in parliament on its own, subsequently formed a coalition government with Europe Ecologie-Les Verts (EE-LV), the so-called "green party".

³³ "Making economies(savings), yes, forget the economy, no." This pun unfortunately works best in French due to the interesting homonymy of the words for "economy" and "savings".

³⁴ See Ben Clift. http://www2.warwick.ac.uk/fac/soc/pais/research/multimedia/videos/ben_c.mp4

The separation of banks' activities

In France the separation of speculative and credit functions of banks is now under study after the project was laid out in December 2012 and already shapes up as the embodiment both of the complexities of global finance and the power of persuasion and influence of the finance sector in France. The complexities reside on one part in the structures of French banks, the larger ones like BNP-Paribas or Credit Agricole do not technically dabble greatly in pure speculation, and the law on the taxation of financial transactions examined since August 2012 excludes a large part of these transactions to concentrate on the so-called "high-frequency transactions".

In fine, the proposed law shows that there is a will to act on promises to curb the excesses of finance, albeit partially, which many analysts in France contrast to the more cautious approach taken in the U.K. where the measures following the Vickers report are proposed for a quite distant future. At the same time, critics close to the left feel that they are not quite strong enough to challenge the present state of affairs and fear that the banking sector, through a mix of sectorial expertise facing government officials and "powerful lobbying", has managed to limit the pressure³⁵ when on the other hand, critics close to the sector fear that such measures, in the absence of global cooperation will weaken French banks on the markets at a time when they are most needed to support a rebound of the economy.

In any case it is certain that such reforms will only bear fruit if Europe moves fast to support that kind of national initiatives at the Union level, as it has started, but also that it does require the expansion of such measures at a global level to have any meaningful impact on global finance without being at the detriment of some national banks and thus national economies.

In state, the law has been criticized, notably by an "economists collective", for not actually addressing the big issue with French banks: their size³⁶. They are huge and deeply connected to global finance in countless ways, thus are structurally condemned to be linked to speculation for as long as speculation remains the main financial activity. There again only global change will condition real structural change in banks' activities.

³⁵ See "Réforme bancaire : un pas en avant, un pas en arrière" in *Alternatives Economiques* n° 320 - janvier 2013

³⁶ See "Loi bancaire : les contribuables ne doivent pas payer pour la finance" in *Liberation* 13/02/13

The problem of tax havens: Evading corporate taxes, an international sport.

The fiscal issues in France took a comical turn in early 2013, when world-famous French actor Gerard Depardieu sent a declaration of war to the French government through a newspaper column³⁷ announcing he had had enough of being 'bled to death' by taxes and was relocating to Belgium. This caused a bit of a stir, not only because it gave credence to a movement of young entrepreneurs ("les pigeons"³⁸) who had already started a campaign to oppose Hollande's fiscal reforms in France, but incidentally Belgium was involuntarily (and of course somewhat unjustly) "outed" as a tax haven for overburdened French rich elites. Although the issues of personal tax arrangements and corporate and financial tax evasion, whether legal or criminal, are in essence quite different, they do coalesce, in France, Europe and the world, in the philosophical and practical relation that the State has with its revenues, and by extension its capacity to use this revenue.

This particular case was, of course, an exaggeration at the macro-level (Belgium cannot be construed as a tax haven) but it highlighted the European issue of the lack of fiscal coordination within the Union, itself the tree hiding the forest of the problem of tax havens, at the European and international level, used by global finance and industry to channel billions of dollars out of the public purse. A new bill looks at tax havens by demanding French banks to give reports on activities country by country- But there again, this might put those banks at a disadvantage if such measures are not followed up at a more global level. Some form of international impetus has been gained in that regard though, following the Obama administration's new regulations in terms of demanding that foreign banks disclose information about American tax evaders³⁹. These matters also figure prominently on G20 meeting agendas, until they are unsurprisingly overshadowed by more pressing matters.

An unavoidable issue for the Parti Socialiste: "La France malade de son Industrie"

Another strong statist proposition made by F. Hollande during the campaign consisted in following the left of the PS approach, led by Arnaud Montebourg, subsequently appointed "Minister of

³⁷ See "Gérard Depardieu : "Je rends mon passeport" in Le Journal Du Dimanche 15/12/12.

³⁸ See "Pigeons" : genèse d'une mobilisation efficace in Le Monde (04/10/2012). Retrieved from http://www.lemonde.fr/politique/article/2012/10/04/pigeons-genese-d-une-mobilisation-efficace_1770123_823448.html.

³⁹ See "President Obama's International Tax Reform Proposals" on <http://www.cbiz.com/tofias/page.asp?pid=7797>.

Industrial Recovery”⁴⁰, to a return of a “dirigiste” approach to steer French industry towards growth and thus help fight the number one problem of unemployment.

On the domestic front, the priority is a ‘re-foundation’ of its industry. Some of the measures pledged sought to increase the role of the state and the public sector. The raft of state initiated measures (especially the pledges for forms of ‘protectionism’) though run the risk of contravening the rules of both the EU and the WTO; some of those will thus be popular for an election, but practically impossible to enact (Clift, 2013).

Interestingly, the government was successful in starting to transform industrial policy in terms of employment. An agreement was found between some unions, employers and the government towards ‘flexi-security’ in a bid to make the French job market more competitive towards its European and International competitors (an old claim from the employers’ union) and also sending a sign to the EU that the state was not only going to “spend” towards creating jobs, but was also able of structural adjustment. Such reforms had previously been considered unattainable due to structural defiance between firms and workforce explored above; an agreement was nevertheless signed in January 2013. This is no mean feat, as many governments before had failed to even initiate anything successful in that field, often regarded as one of the reasons why France is a “societe bloquee”⁴¹.

That kind of measure has been criticised by the left as proof of the social-liberal agenda of the PS, and thus quite a significant counterpoint to their more “orthodox” statist approach. Another reading though, is that no such agreements would have come in France without the state as a go-between, and that the PS, although quite determined (and conflicted) about its pledge to a more ‘dirigiste’ option, is not unaware of some of the demands of the global ‘conditions’ if it is to allow France to regain an edge at the global level⁴².

The issue of political credibility in the French presidential system

As of early 2015, a mid-term evaluation of the success of Hollande’s action could be at best described as “mixed”. First of all, the more vocal pro-state minister of the government, A. Montebourg was gone. A mix of internal political feud and competing ambitions had him fired by

⁴⁰ *Ministre du Redressement Productif* in French.

⁴¹ This can be translated as “a society stuck”. Not a new concept, see Michel Crozier, *La société bloquée*, Seuil, Paris, 1970, réédition en 1995.

⁴² See *Le Monde* (19/11/2012). http://www.lemonde.fr/economie/article/2012/11/19/du-pacte-de-competitivite-au-pacte-social_1792653_3234.html

the end of August 2014⁴³. This ended the first half of the *quinquennat*, marked by a series of squabbles between the more leftist members of the government and the more “social-liberal” followers of F. Hollande, to the advantage of the latter.

More importantly, F. Hollande and his presidency had become quickly unpopular. The reasons for this rapid perceived disappointment could be in part blamed on F. Hollande’s style of leadership, a more “rounded” approach in stark contrast with his predecessor, which for some seemed tantamount to inaction (Kuhn R. , 2014). This sentiment was heavily relayed in the French media through a period of relentless “Hollande-bashing”. On the other hand, the very nature of the French presidential election can also explain in part this rapid disaffection. The candidate is bound to promise a lot (too much) to seduce the electorate, which rapidly leads to disillusion once the euphoria of victory peters out, a process which has been observed for all presidents of the past twenty years (Grossman & Sauger, 2014). F. Hollande himself, always the optimist, has demanded that his record be judged at the end of this tenure. It is clear though, that the lyrical promises of the presidential campaign slammed against the harsh realities of a lacklustre economy and a complicated European context.

In any case, even if some progress will be made, the project of the PS, to be successful, is also highly dependent on political action that has to go through strengthened political cooperation at European level.

4-The EU dimension: European Summits against Economic Troughs, Europe in need of sense

A-The new political dimension of the European Central Bank

After having promised in July 2012 that the European Central Bank (ECB) would do anything it can to preserve the Euro, ECB President Mario Draghi finally announced in September a subtle but important shift of the action which outgrew the scope of this structurally purely technical and ‘apolitical that had been given to it by the European treaties (Maastricht and Lisbon in particular).

The provisional European Financial Stability Facility (EFSF) set up in 2010, and the following, permanent, European Stability Mechanism (ESM) were designed to allow for European funds to

⁴³ http://www.lemonde.fr/politique/article/2014/08/27/montebourg-quitte-la-scene-macron-promet-de-poursuivre-le-redressement-productif_4477325_823448.html.

relieve countries that had lost access to financial markets to finance their deficits, but their means were too limited to efficiently curb speculation on these countries' debts. According to treaties, the ECB has no right or duty to directly help states, let alone impose any conditionality to these financial helps. To dodge this obstacle, Draghi set up the Outright Monetary Transactions (OMT) programme in 2012, which allows for the ECB to enter the game once a state has officially applied for help from the ESM. The announcement by Draghi in September of that year that there would be no limit to the amount that the ECB would provide to prevent a country from defaulting has allowed the European Union to send a warning to the markets that there would be no gain on speculating on high interest rates on public debts in Europe. As of January 2013, the "effet d'annonce"⁴⁴ was sufficient to calm speculation down, especially on Spanish and Italian debts, without having to implement the programme (Duval, 2013).

This fix up was one step towards a greater cohesion of the Euro-zone and one tool that would have been welcomed earlier to prevent the Greek, Portuguese or Irish debt crises, each of them quintessentially insignificant (in a purely macro-economic sense naturally) in comparison to their respective "weight" in regards to the Union, from threatening contagion to the whole region and the possible demise of the whole European edifice. Incidentally, the importance of the "moral hazard" effect which prevented the ECB to show its muscles previously highlights how the strict adherence to the "moral" codes of the neo-liberal paradigm is now largely outdated, and if anything, a hindrance to the search of coherence that the European Union is in great need of developing.

B-Inter-governmental dissensions and the lack of "common sense" in the Union

The inter-governmental summits surrounding the Fiscal compact and the European budget have also highlighted grave dissension within the union, despite the apparent surge of political will to save the Euro, partly successful, but still largely incomplete and temporary.

President Hollande found a supportive audience at the European Parliament when he lamented that the national interests were yet again trumping the European interests⁴⁵, as shown by the European budget negotiations. The resistance of the European parliament and its refusal to adopt the 2014-2020 budget "in state" could be welcome as a sign of a new political European consensus, contesting

⁴⁴ *Announcement effect.*

⁴⁵ See http://www.lemonde.fr/europe/article/2013/02/05/francois-hollande-en-territoire-conquis-au-parlement-de-strasbourg_1827600_3214.html. Retrieved 11/02/2013.

the prominence of the Commission and ECB in the decision-making process, which leaves the parliament as a mere ratification body⁴⁶. The possibility of a challenge to the liberal orthodoxy best represented by EC President Manuel Barroso is significant when one considers that the EP is indeed the only European body which has a political legitimacy directly derived from the fact that its members are directly elected by European citizens. The united front presented on this occasion can be seen by the most optimistic as a step towards a stronger sense of identity. Indeed, the EU has been suffering for many years from a growing sense of divide between the “Bruxelles technocrats” and European citizens. Europeans have fallen out of love with the Union right, left, and just not quite ‘centre’. The imperatives of austerity, imposed by the technocratic adherence to the neo-liberal ideology and its rule-based fiscal austerity have since the outset of the European debt crisis only widened the divide. Ironically, even if the Union has over the past thirty years gradually aligned itself with the neo-liberal paradigm, in an ideological economic sense, Europe is far from a “laissez-faire” paradise. The myriad regulations, which have for main purpose to align all countries, have ironically hidden the neo-liberal nature of economic Europe behind a curtain of red tape. This neo-liberal form of re-regulation, not only infuriates aficionados and protectors of national particularities but has also threatened the sense of identity of the Union as a whole, having largely sacrificed the political and cultural aspects of the European dream, to the creation of a continental free-market.

Among the moves to consider, a political re-centring towards Strasbourg, ideally placed between Bruxelles and Frankfurt, would be more than a geographical landmark. But the European parliament suffers from having been seen as more of a setting for national bickering, and as a weak counterpoint to the technocratic and neo-liberal European Commission. Talks of Federalism are also divisive and find little echo at a time when Europeans are still in shock and already feeling powerless in the wake of the debt crisis. The democratic legitimacy of the European parliament does not translate in political acumen and with the European crisis needing urgent attention, inter-governmental meetings and structures are at this stage the name of the game. Their quintessential weakness resides in the fact that these make for the expression of state-based interests rather than the expression of truly European vision. Government representatives not only clash on political visions (right/left) but even more in geographical divides (north/south) and visionless short-term and short-sighted national interests.

For a Europe that needs to move forward, Hollande has a vision.

⁴⁶ See “Révolte du Parlement de Strasbourg contre le projet de budget européen” in Le Monde (13/03/2013). http://www.lemonde.fr/europe/article/2013/03/13/le-parlement-de-strasbourg-rejette-le-projet-de-budget-du-conseil-europeen_1847281_3214.html

C-The prospect of a multi-level Europe to avoid paralysis

In an interview to the magazine Europa⁴⁷, President Hollande developed his vision for Europe which should underpin the efforts of the French government and support the European economic recovery. Not surprisingly, this vision advocates for a stronger role of the political dimension in economic initiative. With the urgent (the survival of the Euro currency and depending countries) having been consolidated by the ESM, the time is ripe for the essential, give a meaningful political structure to the coordinated efforts of an ever-growing Union, which cannot afford for much longer having countries pulling in different directions.

According to Hollande, the “last chance” summits need to give way to a more co-ordinated approach. The Euro-zone needs not only a President with a meaningful mandate, a stronger Eurogroup and also a monthly meeting of government leaders: their purpose being not the constant salvation of crises, but the implementation of coherent policies. This means the organisation of countries in different ‘circles’ (“avant-gardes” or ‘core countries’ leading initiatives) not as excluding other countries but facilitating initiatives from the most ‘enthusiastic’ countries, as for example the initiative on tax havens, but also look at long-term and co-ordinated investments (youth, new or green technologies, etc.). France seeks to use its position as one of Europe’s leading economies and use its political weight to initiate new forms of co-operation at the European level. This also betrays the Keynesian ideals of the French PS, that would see a more “dirigiste” and statist approach extended to the workings of the EU.

Buoyed by the development (and temporary solution found) of the Greek crisis in July 2015, F. Hollande made further calls for a re-evaluation of the needs of a better political governance of the European currency. This time under the auspices of Jacques Delors, he proposed to move beyond the Eurogroup and create a government for the Euro zone⁴⁸.

⁴⁷ Europa was a supplement conjointly published by 6 major European newspapers (In France by Le Monde newspaper) based on an interview given by President Hollande in October 2012. Excerpts and resources used here retrieved from article published in Le Monde (17/10/2012).

⁴⁸ See “Hollande plaide pour un « gouvernement de la zone euro », Le Monde, 19/7/15. Retrived from http://www.lemonde.fr/europe/article/2015/07/19/hollande-plaide-pour-un-gouvernement-de-la-zone-euro_4689349_3214.html

D-Europe vs. rest of the world? The prospect of a World Cup with no winner

After the GFC, a worrying phenomenon highlighted the persistent lack of political and economic cohesion in the world economy. With a low US Dollar and Sterling Pound, and Japan devaluing the Yen (there also after a strong ‘political’ takeover of the Japanese Central Bank by the Japanese Prime Minister Shinzo Abe) an ominous “currency war” was shaping up. With Euro the only major currency that was not devaluated, even over-evaluated in the opinion of many economists, problems arose⁴⁹.

On one hand, this issue highlighted even more the dissensions within Europe; France demanding a form of devaluation that Mario Draghi refused, and Germany opposed, since its export-driven economy has always benefited from a strong Euro. France and the weaker economies in the Eurozone would benefit from a weaker Euro that would potentially boost their exports and help their recovery. On the other hand, the strong Euro was the indicator that the markets still put their eggs in the Euro basket, due in part to the reassuring actions of Draghi and the ECB. The Quantitative Easing (QE) of some of the global economy powerhouses (particularly the US and Japan) had long been forcefully condemned by other countries, most notably Brazil, and the “currency war” that seems to persist is an indication that the ‘anarchic’ system is still the major force in the global economy, and highlights the limits of the return of the ‘political’. In the absence of global dialogue or cooperation at the political level, the markets rule alone, for better or for worse. Experience has shown that there is no real assurance it will be for the better. There again, a stronger political cohesion at the European level could send a positive message to the global community. The Euro zone is not significant enough to hold the future of the global economy, but if it were to set an example of deeper forms of cooperation relying on political initiatives, it could revive the old European ambition.

In 2015, the “currency war” was taking another turn. The end of over six years of Quantitative Easing by the Fed and the implementation of the Euro-bonds and the more decisive measures, and cultural shift, by Mario Draghi and the ECB, among other factors, meant an entry into even more uncertain times. If on the one hand, it means an alignment of Germany towards the need for a lower Euro⁵⁰,

⁴⁹ See “Race to Bottom Resumes as Central Bankers Ease Anew: Currencies” on <http://www.bloomberg.com/news/2013-11-11/race-to-bottom-resumes-as-central-bankers-ease-anew-currencies.html>.

⁵⁰ See “Merkel re-ignites ‘currency war worries’”, Financial Times, 12/6/15, retrieved from <http://www.ft.com/intl/cms/s/0/593d4a4c-10ea-11e5-9bf8-00144feabdc0.html>

and thus a greater European cohesion, it does not necessarily bode well for the future of the global economy⁵¹.

Ambitious dreams of political, cultural and economic co-operation in Europe have faltered on the altar of neo-liberalism. In the throes of the Euro-crisis, Europe does not presently excite the imagination of Europeans, let alone the rest of the world. It is too early to throw away the baby with the bath water though. The forms of co-operation created are still a major achievement in world history that should not be underrated too quickly. Francois Hollande and the PS in France are staunchly pro-European, while defending a long term transformation of the structures, so as to be steered by states rather than markets. An overhaul of the neo-liberal agenda is necessary to move forward, as markets have there again largely failed to their ideological mandate.

⁵¹ For a short assessment of pros and cons, see "Currency wars:Lose-lose or win-win?" The Economist, 4/2/15, retrieved from <http://www.economist.com/blogs/buttonwood/2015/02/currency-wars>.

IV- Globalization should be what states make of it

«On dit qu'il n'y a point de péril parce qu'il n'y a pas d'émeute. Permettez-moi, Messieurs, de vous dire que vous vous trompez. Regardez ce qui se passe au sein des classes ouvrières qui, aujourd'hui, je le reconnais, sont tranquilles. N'entendez-vous pas qu'on y répète sans cesse que tout ce qui se trouve au-dessus d'elles est incapable et indigne de les gouverner ; que la division des biens faite jusqu'à présent dans le monde est injuste ? Et ne croyez-vous pas que, quand de telles opinions descendent profondément dans les masses, elles doivent amener, je ne sais quand, je ne sais comment, les révolutions les plus redoutables ?»⁵² - Alexis de Tocqueville (1848).

This quote, which for Tocqueville became actually prescient, in that it preceded by a mere few weeks the 1848 revolution in France, is not meant to give to this thesis a sense of impending gloom. Nevertheless, as we have seen in part one the state is, at the least, going through a prolonged “representation” crisis, that not only cripples its scope of action in regards to the global challenges, and in the context of this work especially in the economic field, but also its legitimacy in regards to its constituents. The Global Financial Crisis has shown how crucial the state had been in salvaging the present economic and financial system, to avoid the impending collapse of the “lungs” of the economy, but also how its actions have stopped short of finding long-term solutions and how the costs have largely been transferred to the most vulnerable, the very same people that the state is to the extent that this thesis defends, mandated to protect.

If we accept, as this thesis pretends to do, that the present organization of the global economic system, in the least in its financial sector, is hardly viable in its capacity to offer sustainable prosperity to the multitude, but that the state, in its singularity, and despite its pledges, is incapacitated, more than incapable, to offer meaningful protection to its citizens, we can accept that it is the mode of action of the state at the global level that needs to change. As we have seen in part I, the state has for a long time now been described as an extremely vulnerable entity in regards to the over-arching structures of the global economy. The most ardent of state-centric realist ironically

⁵² “I hear that there is no threat since there is no unrest. Allow me, gentlemen, to tell you that you are wrong. Look at what is happening among the laboring classes who, today, I admit, are quiet. Can't you hear that they repeatedly assert that all that is above them is incapable and unworthy to govern them; that the present division of wealth as it is done as of now in the world is unjust? And don't you think that when such opinions descend deeply within the masses, they must lead, I do not know how, I do not know when, to the most terrible of revolutions?” translated from French by author. Quoted in “Silence du droit, colere du peuple” in Liberation, 27/12/12.

has to accept that a re-print of Hobbes' "Leviathan" would be compelled to replace the imagery of the contract-bound ruler by the picture of a bank (preferably a private institution), which significantly changes the nature of the social contract. Beyond the farce, and before conjecturing on what options remain for the state to justify its future actions and a renewed legitimacy, it pays to have a closer look at the nature of the structures that bind its scope of actions.

When calling on the auspices of A. Wendt's seminal "constructivist" approach and paraphrasing his title, the purpose is not to offer a parallel theoretical approach of the power politics applied to the economic field; this would be too ambitious an endeavour. Beyond playfulness though, there is ground to apply some of his views on the construction of anarchy to a study of the present organisation of globalized finance, to critique the "super-structures" not as a matter of fact that condemn states to a limited mode of action in regards to the process of globalization, but as a state-initiated historical reform, based on theoretical assumptions that have not delivered on promises or stood up to empirical evidence. Thus ensues a reflection that before seeing the need of developing new theories, classic theorists of political economy like Karl Polanyi had been right all along in seeing that it is "laissez-faire" in economy that is carefully planned (Polanyi, 1944), and then that the social dismantling of the state was not so much a liberalization of the economy as a political re-framing of the seat of power from public (state) to private financiers (Gill, *Globalization, Market Civilization, and Disciplinary Neoliberalism*, 1995).

The neo-liberal perversion of the ideal "free-market economy" of Adam Smith is thus now well documented. It is nevertheless not done and dusted. Although the neo-liberal ideology is far from being the most represented mode of action of states at the global level, its "hegemony" sustains the structures of the global economy, and to a large extent the structures of global finance, and states have to work within these over-arching structures⁵³.

⁵³ In an editorial written about Noam Chomsky in 1999, Robert W. Chestney had summed up neoliberalism as "the defining political economic paradigm of our time - it refers to the policies and processes whereby a relative handful of private interests are permitted to control as much as possible of social life in order to maximize their personal profit. Associated initially with Reagan and Thatcher, neoliberalism has for the past two decades been the dominant global political economic trend adopted by political parties of the center, much of the traditional left, and the right. See R.W. Chestney, *Noam Chomsky and the Struggle Against Neoliberalism*, *Monthly Review*, April 1, 1999.

1-Wrong premises and false promises: The world that never was and the neo-liberal re-construction of “anarchy”

Like many ideologies that have arisen or resurfaced in the troubled 20th century, the neo-liberal dream has not quite delivered on its promises. The assumption that free-markets unencumbered by state regulations would ensure global prosperity has had quite mixed results, to say the least. Although the level of financial riches in the world has seen sustained growth, its repartition has fallen short of ensuring prosperity for all. As it turned out, markets were never free. From the time that supply started to control demand, the rules were skewed. In the western world, for many, the pre-industrial dreams of Adam Smith have turned into a post-industrial, and to some extent post-democratic nightmare inspired by Friedrich Hayek, where “consumerism” has become a de-facto substitute for prosperity, market instability an apparently acceptable *modus vivendi* rather than just a *modus operandi*.

A- The trickling down effect: Swimming pools for some and acid rain on the rest : The problem of distribution of wealth in a neoliberal world and the practical demise of an ideology

The assumptions made by Friedrich Hayek that free-markets would through thick and thin end up self-regulating, and ultimately, despite the possibility of intermittent crises, ensure global prosperity have bitten the dust. His followers, let’s tentatively cite Milton Friedman as possibly the most iconic and influential one, were a little less clear about the conditions of ensuring prosperity as they were about their mathematics and the power of abstract sciences to dress up their ideology of minimalizing the restraints on free capital flow. A few decades later, mathematics, based on empirical data and not algorithms, are not on the neo-liberal side, and some comprehensive studies can now be used to analyse the relative economic failure of neo-liberalism (Tausch, 2007).

For a political and philosophical mind, it is tempting to condemn the neoliberal agenda on its potential for destruction alone; indeed an ideology based on individualism, financial profit at all human costs, and the apology of competition as the best form of human relationship to foster excellence and progress, pose inherent questions about the model of society that can be sustained and the inevitability of injustice (a society that venerates winners will in essence condemn losers), the “legitimacy of violence through competition” (Lordon, 2002) and growing barriers to re-distribution. Furthermore, the political mind easily finds grounds for condemnation in the drastic muzzling of participatory democracy when effective economic power shifts firmly towards private authority, not in small part as a consequence of the generalisation of lobbyism at all levels of politics

(Crouch, 2011). The political and sociological consequences are immense, but also diffuse and complex. Although the process of globalization has helped merge the notions of culture, sociological, political, economic, and financial in a maelstrom that has now reached a level of confusion which most find hard to grapple with, the neo-liberal *discourse* (in its Foucauldian sense) has sought, and in many ways succeeded at separating them and treat them as separate concepts, in doing so pushing the process of *reification* to its utmost and untenable limits. In doing so, it has emptied the economy, and finance, of its sense, and transformed them into entities that in large parts work on their own and for their own purpose. In that sense, a global economy that has prominently allowed for the emergence of huge conglomerates, which have only partially for purpose to sustain prosperity, but mostly to ensure the maximum of profits to a shareholding elites, and the afferent financial structures, which sustain its own existence through speculation and the de-materialisation of the human factor, have become the ultimate perversion of the liberal capitalist system. This process has now escaped so many levels of control, and is under so much risk of systemic collapse, as it relies less on rational thinking than a self-preserving short term logic; the so-called *animal spirit* already theorised by Keynes (Keynes, 1936) and in the wake of the GFC revived by neo-Keynesian analysis (Akerlof & Shiller, 2009). If there has indeed been exponential creation of wealth, this has been done in a logic of ultimate *primitive accumulation* which has not only seen a widening gap of inequalities, between states at the global level (Deeg & O'Sullivan, 2009), but within states and the inherent consequences on domestic economic and social structures.

What had for decades been obvious for critical theorists, neo-Gramscians and other contrarians, has now become obvious to orthodox liberals as well, if only because now we have some empirical evidence of the failure of neo-liberalism. The theory of the *trickling down effect* has not materialised in a continuous and sustainable creation of wealth that would inevitably benefit all, but in a world that lives in the constant expectation that some of the drops will fall down on them, but whose global structures mainly ensure the coming of a *perfect storm*.

One question remains: how can a failing ideology still embody the dominant paradigm of global economic and financial structures?

B- The political deconstruction of the state's financial apparatus, global capital mobility and the consolidation of anarchy

After the breakup of the Bretton-woods system under Richard Nixon in 1971, his Treasury Secretary John Connally famously set the tone when he ironically conceded to a European delegation that from now on “the dollar is our currency, but your problem”. From then on, the relative simplicity of

the Bretton-Woods system, and a global economic system ruled by the prominence of one currency pegged on a single commodity has given way to a complex system of floating exchange rates, where the dollar keeps its place as the world currency, but which value is now open to many variable factors. Among the most important consequences have been the consolidation of monetary instability (what should have been an oxymoron) and a progressive but complete re-structuring of the global financial system, towards a greater liberalisation of capitals and a reduction of states' capacities to find autonomous margins of operation within the global financial structures (Cerny P. G., 1993) (Cerny P. G., 2006).

The ensuing evolution which has seen states lose their monopoly on creation of money, and try to gain a comparative advantage on borrowing from markets, while being more and more constrained by financial structures to adopt policies that will facilitate their access to capital has been an affair led by states. As L.W. Pauly observed, in addition to adjusting internal policies, they simultaneously reshaped the mandates of such international organizations as the IMF, the World Bank and OECD along the lines of freer capital flow. But, as he went on "The reluctance of states to embrace unambiguously the capital mobility norm or clearly to designate an international organisational overseer for truly integrated capital markets, even as their own policies promote such a norm, suggests a deeper concern. The legal issue masks an issue of power and authority." (Pauly L. , 2006, p. 142). In that sense we can rightfully adjust A. Wendt's analysis of power politics (Wendt, 1992) and assert that the global system thus created where states cannot lodge political authority over integrated markets and the rise of Cerny's *competition state* is a continuation of *anarchy*. Not only is "Anarchy what states make of it", but to a large extent, globalisation has been what states made of it. That it has not been achieved to satisfaction is now the issue that states have to tackle. Following L.W. Pauly again:

"If effective governing authority has been usurped by global capital markets, or if such authority has surreptitiously been devolved to those markets by states themselves, surely questions are raised about the process by which such a shift has taken place and about the obligations of citizens to comply. There remains today only one place where such questions can be directed and satisfactorily addressed. And whether we conceive of it as an arena, a structure, or a set of institutions, that place is called the state." (Pauly L. , 2006, p. 141)

And it is just what citizens have started doing.

C-Where money comes from, where money belongs or where it could be lost

The mechanisms of global finance despite its crucial importance in all aspects of the workings of the globalized world, as well as national and local economies are largely unknown by the general public. In 1975 already, the famous liberal economist JK Galbraith had noted that “The study of money, above all other fields in economics, is one in which complexity is used to disguise truth or to evade truth, not to reveal it. The process by which banks create money is so simple the mind is repelled” (Galbraith, 1975). The first step towards a possible change of these structures is to go back to basics and allow for a comprehensive and general understanding of how these things work. In that regards, some economists have started the groundwork to challenge not only the creation of money, but its use and its allocation. The work of the New Economics Foundation (NEF) in Britain contributes to an enlightening renewed analysis of some of the most crucial consequences of how money nowadays largely escapes the control of central banks and that money is in large part created by private banks by “simply making an entry in a ledger”. Among the important consequences of their analysis is that capital adequacy requirements (the amount of money banks should own to be able to lend) are largely insufficient to prevent credit booms and asset price bubbles. Private banks decide where money should be lent, which is more likely to fuel speculation and be channelled in property than being lent for investment in production (as these are more risky ventures that banks can largely prosper without). Central banks have ultimately been left with a relatively minor role in money creation and allocation, which impairs the effectiveness of fiscal policy and the role of the government in economy (Greenham & Ryan-Collins, 2012). The serious critique of the present system has led to the emergence of alternative and constructive views of how finance should work, towards a more citizen-oriented form of economics⁵⁴.

A similar process can be observed in France, where serious questioning of how finance works, led particularly by the collective of “Les Economistes Atterres”⁵⁵ offers challenging views to “la Pensee Unique” and the neoliberal orthodoxy which has overseen the creation of the Euro, its current crisis and its possible demise, as well as the structures of global finance which have led to the recurrent crises of the past few decades. There, too, the anger generated by this sorry state of affairs demands for a renewal of economic thinking.

⁵⁴ See <http://www.neweconomics.org/>

⁵⁵ “The Appalled Economists”. See <http://www.atterres.org/page/presentation>.

These visions coalesce in creating a new 'common sense' that urges governments to act decisively (and preferably co-operatively) to curb the excess of global finance and its de-humanised markets towards policies and regulations that privilege investments in the 'real economy'.

As a counterpoint, when economic thought has at last started to move beyond the barriers of orthodoxy, the financial structures that nearly precipitated the world into a maelstrom, continue to operate along the same lines as it was, considering that the same major banks have been kept operating and have not only magically recovered but prospered. Worse still, the 'magical hand' of the market has seen its *modus operandi* drastically move towards *high frequency trading* in the past five years (up to 70% of all trades according to some estimate)⁵⁶. The rapid rise of high speed trading systems in the past five years is due to their capacity to increase volume and liquidity, and just like *derivatives* before was seen as the perfect tool to make markets more efficient. Unfortunately, just like *derivatives* before, *high frequency trading* has the potential, by a simple glitch in algorithm to bring the system down and create crashes of indiscriminate proportion. When the urgency lies in stronger regulation of financial and banking markets, new technologies and their "many glitches that have plagued financial markets in the past couple of years should serve as a sobering reminder that financial markets have evolved much more quickly in the past decade than regulators have"(Ibid).

As it appears, the GFC has had a profound effect on the political and economic world, but practically none on the financial world, which seems more determined than ever to take the risks of further meltdown. The structures of language that have dressed markets up with human qualities and emotions, have thus attained tragic rather than comical status. The more remote decision-makers are from the consequences of their decisions, the more impersonal and dangerous these have become. The main human factor that is present in markets is self-interest, the other social attributes of cohesion have become markedly overshadowed.

It is now clear that the virtual trio of Ronnie, Maggie and TINA were wrong all along; markets cannot be left unfettered, there has to be an alternative, and finding it is now a matter of urgency.

⁵⁶ See High Frequency Trading: Wall Street's Doomsday Machine? Time website.
<http://business.time.com/2012/08/08/high-frequency-trading-wall-streets-doomsday-machine/>

2-The state is dead? Long live the state

There again, the European Union should be used as the laboratory to consider how states should negotiate concepts of sovereignty, power and legitimacy to draw up new political action to curb the excess of global finance.

A- For a response to the failing market society: From the competition state to the cooperation state

Despite the dire state of the global financial system, not only highlighted by the gravity of the GFC, but compounded by the very timid scope of reforms that have been implemented, at state level, to limit the risks of another crisis of a similar or worse magnitude, the world seems to move along in a form of blissful (wilful) ignorance. To be more accurate, the global structures remain unchanged, consumerism seems triumphant and the banking and financial world, and by extension the economic global order seem to be stuck in “business as usual”; in the meantime in some countries’ social forces seem to simmer, under the pressure of austerity, but more generally out of anguish.

As B. Van Apeldoorn said, “the complete underdevelopment of the social cohesion dimension of the enlargement process tends to turn this historic unification of Pan-Europe into a mere geographical extension and deepening of neo-liberal restructuring” (Van Apeldoorn, 2006, p. p313). At its core, the European project retains the capacity to reform its institutions towards less liberalism and more cooperation and cohesion.

It is thus time to challenge the status quo with propositions that aim at re-orienting European policies towards a more state-initiated form of co-operation (incidentally not too distant from F. Hollande’s vision) that recognises that “It is obviously not realistic to imagine that 27 countries will decide at the same time to make such a break in the methodology and objectives of European construction.(...) As will become evident the disastrous policies adopted today, the debate on alternatives will rise throughout Europe. Social struggles and political changes will occur at different rates in different countries. National governments take innovative decisions. Those who so desire should adopt enhanced cooperation to take bold steps in financial regulation, tax policy or social. With concrete proposals they will tend out to other people so they join the movement”⁵⁷.

⁵⁷ Quoted from English translation of “Manifeste des Economistes Atterres-22 propositions”
<http://atterres.org/page/manifeste-economistes-atterres#translate-en>

In a global context, “there is little consensus on the question of whether an alternative economic project is best built at the global, regional, national or local level.(...) The political backlash against neo-liberalism is likely to result in a much more heterogeneous global political economy that is no longer characterized by the kind of worldwide uniformity of economic practice that was ushered in by the neo-liberal revolution.” (Helleiner, 2006, p. 85).

In that regards the EU already has the platform, and in some instance the political *nous* to start this shift.

B- The issue of “sovereignty”: When less is more?

The European model has suffered greatly from the GFC. Nevertheless it is not quite yet time to throw away the baby with the bath waters. Firstly, the ECB has played a significant role in preventing sickly Greece from falling prey to speculators, and leaving the Euro-zone, and to some extent, a form of unity in despair has played a significant role in limiting the devastating effects of the sovereign-debt crisis, where the relative economic strength of the leading countries has offered some level of protection to the most vulnerable ones. But the Union is nevertheless in crisis and at a crossroads, when the choice is now between stagnation, which in the present situation is untenable and can only mean retreat, and the ambition of federalism and a more co-ordinated approach to the challenges ahead.

The European Union is a complex beast, which unfortunately in the past decades, has somehow lost its way, by infuriating many of its citizens, by becoming a web of technical Bruxelles-led directives and regulations, tenets of strong bureaucracy, while in the meantime, forging intra-union competition, for labour, industry and not addressing, in the financial and industrial sector the prominent issue of fiscal competition and lack of political and social harmonisation. Now a far-cry from the CECA of the 1950’s and its pooling of primary resources and the promises of harmonisation of a common market with a social conscience along a *social democratic project*, the Union is a dichotomy, that has attempted, and is quite naturally failing, at combining neo-liberal inspired competition with the needs for a harmonised union (Van Apeldoorn, 2006). The capacity of the EU of representing a future blueprint for state cooperation has undoubtedly been damaged by its evolution towards “embedded neo-liberalism” and what Stephen Gill had described as “new constitutionalism”. The adoption of the European Monetary Union (EMU) in particular contribute to this process that seeks “to separate economic policies from broad political accountability in order to

make governments more responsive to the discipline of market forces and correspondingly less responsive to popular-democratic forces and processes” (Gill, 1998). This has now become its downfall, which incidentally masks the progress made.

Since solving the Euro-crisis is the urgency for the EU, as a first step, the errors made at the creation of the Eurozone must be corrected. Advances in this area could be the blueprint for further reforms. As M. Aglietta observed “The euro must be constituted as a full currency, which means it must be undergirded by a sovereign power. This will require constructing a democratically legitimated European budgetary union, pooling sovereignty to determine medium-term fiscal policy collectively.” (Aglietta, 2012, p. 36) It is this example of pooling of sovereignty that could mark the return of political will against the might of the market. “By correcting its own imbalances, the Eurozone will be better equipped to play a role in the ongoing structural transformation of the world economy, in which the preponderance of the West will inevitably diminish”(Ibid).

3-Globalisation, global governance and democratic representation: The case for a paradigm shift

The point here is not to presume the changes that will occur, not even to suggest the best options available. It is not even to presume that these changes will happen wilfully or in an organised pattern, although the case is that it should, lest the possibility of a potentially dramatic deliquescence of an already precarious world order.

The case made is that the process of globalization that has occurred in the past few decades has largely been operating under the tenets of an ideology, simply put as neo-liberalism that has proved to have a lot of misgivings and weaknesses, both as an ideology, and then as a practice. One of the major ones, the process of private regulation, has been outed, most prominently by the recurrence of major financial crises, as a highly deficient component of the global governance structures needed as a framework for this changing world. In addition, the importance of one of the major actors of world politics and economy, the state, arguably seen as waning in this process, has in fact been overlooked, and if meaningful changes have to occur, states will need to be at the forefront. Not only because they are practically the most capable structure, in part due to the legitimacy of democratic responsibility, and to no small extent, because as has been shown by the GFC, they remain the last entity standing when everything else seems to fall apart. The state can falter, even sometimes fail, but even now, in a largely de-centralized economic and financial order, the state can

hardly disappear, as if imbued by a form of immanence, personalized by the fact that the state does not exist because it represents a geographical space as much as a community of people that occupy, inhabit and somewhat structure that space.

The state, even the postmodern state, is protean, and that remains its force, as indeed, if it is not efficient enough in its actual form, it has the ability to morph and extend its reach, even if it takes an apparent form of loss of sovereignty, the usual but sometime misguided equivalent of power. In a globalized world, power will come from co-operation rather than competition, especially in regards to what has been more and more considered as its enemy, say the global corporations or financial institutions, which in fact should be, at least in the short term, their somewhat subservient complement.

In the recent past, the state has been ill-served by the institutions it created, most prominently the IMF. The causes are now quite clear though. The neo-liberal ideology, best summarised at that level by the moniker of the Washington Consensus has failed. This ideology had finally for purpose to represent the case of the most powerful, at the detriment of the weakest. This paradigm is still dominant in practice, but what we have observed since the GFC, is that the discourse is slowly changing, not the least from the IMF itself. Not only have the neoliberal tenets been challenged from within, but the structures of power within the IMF, among them the prominence of the powerful states (and especially the USA) at the expense of others are also challenged, as they are the best case for immobility. It is fair to say that the measures taken to this day by individual states, whether in regards to greater financial regulations or addressing the major issue of capital flights through tax heavens, have been quaint. They are bound to be so, as long as financial structures do not reach some level of harmonisation and continue to allow firms and institutions to shop around, with the certainty that when one door slightly shuts, many others only have doorframes.

Major changes will not be initiated by actors who benefit most from the status quo, at least not further than token reforms that hardly challenge the structures.

Why the “urgency”? Because the most important factor of the capitalist system, ‘confidence’, is failing, waning from all sides. Not so much from corporations and financial institutions, which after the big scare of 2008, are back to their former self, and have even pushed the limits of speculation, due to technological advances, and intellectual immobility, even further. Confidence is waning from citizens, those who suffered from the GFC, and those who feel they will suffer next time it happens, those who pretended to believe that capital flows were going to ensure global prosperity, but have seen nothing much, except a life on credit ensure their precarious future, and those same ones who

see the state as having been complicit in that institutionalisation of global competition. They have now not only become blind to the beneficial aspects of globalization (as they do exist, by nature) as they have become to the ability of the state to represent them and their interest in the new choir of nations. Postmodern states are more and more stuck between, and under threat of political forces that ask for a 'sovereignist' retreat on one hand, and the economic forces that still consider the status quo or the expansion of free-markets as the only viable option.

It is obvious though, that no border will stop the 'flow' that comes from overseas (whether we talk about people or finance for that matter) if you can't maintain meaningful relationships and establish forms of control through negotiations with the ones who have access to the tap. In 'sovereignist' circles, global governance gets a bad press, but government in its present form is more and more identified with its limits. The equation of power with sovereignty, thus the emphasis on the vertical power of the state, has served to mask the fact that the new sovereignty should not express itself as much in regards to other states as towards private actors whose interests have developed outside the state framework.

The interconnectedness of the global economy is hardly something that will revert, at least peacefully. But this interconnectedness requires regulations that have not been possible under the present paradigm of competition and lack of global regulation. A new paradigm is thus needed, and at this stage, but for how long, states have a card to play, but they will have to implement structures that promote cohesion rather than competition.

That such an evolution is so necessary does not seem enough to make it possible. The timid progress observed, whether at G20 meetings, in IMF or OECD reports that betray the realisation that present structures are inadequate, are characterized by being more rhetoric than practical. Although they can signify the slow emergence of a 'paradigm shift', it is at the moment largely insufficient in a context that shows signs of the risk of social implosions within states that do, and will, find it hard to emerge from the GFC more robust than they were, and a global banking and financial system, that is practically unchanged and thus at risk of another, and possibly more severe crisis.

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