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European Periphery Crises, International Financial Markets, and Democracy: Moving Towards a Globalized Neofeudalism?

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Abstract

This paper analyzes the origin and causes of the recent economic and financial crises, mainly for the countries located in the periphery of the European Union (EU), as well as their evolution and transformation into social, political, and institutional crises.

After explaining the differential impact of the crises on EU member economies and critically analysing the unsuccessful orthodox neoclassical policies implemented by governments and international institutions to try to manage and resolve them, we propose some alternative economic policy measures for the EU.

Furthermore, we analyze how the economic policies developed thus far not only are unable to resolve the current crisis pattern but also actually entail a risk to the present democratic models by transferring the legitimate control over governments from citizens and democratic parliaments to unelected, non-representative international financial markets.

Key-words

financialisation, economic crisis, European periphery, democratic systems, European construction, political crisis, export-led growth, neoliberalism.

1.- Introduction

The starting point of the most recent episodes of economic and financial as well as political, ideological, and institutional crises (henceforth, referred to as "the crises")[1], at the international level, is usually considered to be the explosion of the subprime mortgage bubble in the US. The consequences of that event still affect, with varied intensity, world economies today, as the world's most developed economies underwent extraordinarily significant transformations in their productive and financial structures, thus transforming the overall global economy. The consequences include dramatic changes in the balances of power in political, social, and cultural (and, hence, institutional) structures[2] and, as a result, in the behaviour and legitimacy of the democratic systems of the most advanced nations.

The transformation began when the bank (mortgage) crisis grew to an economic (production and employment) crisis. It transformed into a financial crisis as the underconfidence grew, and excessive private debt bled into an excessive sovereign (public) debt crisis. The evolution from a private crisis, whose resolution, when affirmed, would imply a refoundation of capitalism (hence, a market crisis), to a public sector crisis, whose (non)resolution would cause the collapse of the model of social protection and the Welfare State System, which some of the most developed economies enjoy (hence, a state crisis), has resulted in attention now being focused on the very serious structural problems that currently plague the economic, financial, political, social, and institutional systems.

In contrast, the implementation of the orthodox neoclassical economic policy recipes, especially in European economies, has highlighted the fact that the belief onliberalised and deregulated markets as almost perfect meritocracies (which, as the mainstream assumes, distribute rewards and punishments according to merit, abilities and behaviour), was nothing more than a myth. To an even more serious extent, this return to old neoclassical policies may have undermined, perhaps in a definitive way, the legitimacy of those social, political, and institutional structures that have proved unable to demand and assign responsibility, correct market failures, and apply the economic policies necessary to internalize externalities, distribute costs in a fair way, and correct financial, structural, and social imbalances. These same institutional structures have also failed to reveal and

[1] Other crises, such as energy, food, or ecology crises, although intricately related, will not be analyzed in this paper.

[2] Considering culture in its broader meaning, as an institution, attitude, or type of behaviour. For more on the relation between institution and culture, see, for example, Billing (2000).

quarantine the application of those economic policies that had little or nothing to do with the present crises.

In this paper, we analyze the origin and evolution of the crises and how the economic policies designed in all Western economies (especially the EU periphery) to face the devastating consequences for production, employment, and social wellbeing are unable to guarantee the stable and durable recovery of these variables and are incapable of maximising the people wellbeing. Furthermore, these new "old" economic policies imply a dangerous point of inflection in the political and democratic future of the affected economies, with presumably very serious consequences.

This paper is organised as follows. In the next section, we will briefly review the origin and evolution of the crises. In the third section, we will critically study the economic policies that have been implemented, mainly in the European periphery, to combat the causes and consequences of the crises, and we will discuss the available alternatives that, as yet, have not been enforced. In the fourth section, we will analyze why the origin of the crises, their evolution, and, specifically, the economic policies implemented, implies, *de facto*, undermining the political and social models of the European economies, as well as the global model of European construction itself. Finally, we present our conclusions.

2. The origin, evolution, causes, and differential impact of the financial and economic crises

2.1 An evolutionary crisis

It all started as a bank crisis. Its formal explosion stemmed from the burst of the speculative bubble created by the securitisation process of subprime mortgages in the US market; although, in reality, the crisis was the natural consequence of the practical concretion of a *Minsky moment* provoked by an oversizing of some deregulated and interconnected financial markets and by the confidence crisis inherent to any financialisation process (Minsky, 1982, 1986).

The contagion to other financial and bank markets and to other economic sectors, combined with the liquidity problems caused by the accumulation of junk assets in the balance sheets of banks and financial institutions, quickly transformed the bank crisis into a financial one. This converted the original liquidity shortages into solvency problems that, once again, showed the close relation that the deregulation and dysfunctional financial liberalisation process -and its most obvious consequence, that is, the transit towards a financial capitalist model- has established between financial and productive economy:, the crisis materialised in intense economic contractions that generated recession and unemployment, thus transforming into an economic crisis.

Immediately, the operation of the budget´s "automatic stabilisers", which increase public expenses and collapse public revenues, along with *ad hoc* measures designed by the public sectors of the most developed economies to bail out troubled financial institutions to avoid a global systemic collapse and temper the dramatic impact of the social and productive consequences of economic crisis caused (for instance in Spain) or deepened (as in Greece) public deficit difficulties. Consequently, this was accompanied by growing pressure on the public debt of the affected economies. In this way, the economic crisis became a sovereign debt crisis with unusual rapidity, transmuting its excessive private debt origin into a consequent excessive public debt.

In turn, the debt crisis was transmitted in the form of tension in at least three very obvious directions. The first one was towards an exchange rate crisis, which involved a deepening of the persisting and systematic misalignments in the exchange rates of the main currencies operating on the global currency market[3]. Fundamentally, this evolved from the elaboration of competitive devaluation strategies and the implementation of other, commercial or not, beggar-thy-neighbour policies[4]. The second direction was toward the feedback of problems associated with excessive debt, lack of confidence and credit access difficulty for the financial institutions of the affected economies (hence, deepening the bank crisis). Again, this is a consequence of the practical apparition of a peculiar *psychological* crowding-out effect, according to which the levels of public debt in countries that are basically solvent raise doubts among (already fearful and herding) financial markets regarding the solvency of the private financial entities of these countries. Finally, the draconian measures of structural adjustment that States and other supranational political structures such as the European Union (EU) offered to financial markets deepened the

[3] Obviously, the problems regarding exchange rates are much deeper and go much further than persisting and systematic misalignments. For more on this specific topic, see Harvey (2009).

[4] The labour market deregulation policies implemented in some economies of the EU, by trying to reduce unitary labour costs to a larger extent than business competitors or by reducing public pension systems benefits, which avoid increasing employers' contributions and/or raising tax pressure on higher incomes (which are both alternative mechanisms to support the system by means of revenues increases instead of spending cuts), and, thus, avoid affecting national businesses' export competitiveness, can be regarded as another type of beggar-thy-neighbour policies, and not, as the mainstream points out, policies meant to improve competitiveness and efficiency.

economic, social, and political consequences of the crisis, provoking political and institutional crises (as we will analyze in the next sections).

This leads us to the question: what is the origin of such significant economic and financial crises?

2.2 Financial, structural, and social deficits as causes of the crises

Given that the time dynamics of the events are well-known, it proves more interesting to analyze the underlying reasons that explain both the eruption of the crises and the intensity that they reached within the most developed economies. In our opinion, there are two main sets of factors that could explain the recent episodes of the financial and economic crises: microeconomic factors and macroeconomic and structural factors[5].

2.2.1. Microeconomic factors

This group of factors is made up of three main elements: *(i)* the existence of distorted incentives; *(ii)* the presence of significant and persisting errors in risk quantification and management; and *(iii)* the enormous deficiencies detected in the regulation and supervision of financial markets.

Firstly, the crisis has highlighted the presence of distorted incentives for consumers, investors, financial agents, and rating agencies. On the one hand, consumers and investors were not cautious enough and, consequently, got into considerable debt and invested in products that were too opaque and complex. Some factors intrinsic to the behaviour of the liberalised and internationalised financial markets, such as the existence of imperfect information, uncertainty, irrationality, bounded rationality, and herd behaviour (Dequech 2001; Dunn, 2001; García-Arias, 2006; Olesen, 2010), explain and have certainly demonstrated their unsettling potential in recent crises. On the other side, the managers of financial institutions, encouraged by remuneration plans based on short-term returns and turnover increases, raised the leverage and accumulated enormous risks. Finally, the rating agencies, overwhelmed by highly complex structured products but unable to give up the

[5] The literature regarding this issue is abundant. See, among others, Arestis and Singh (2010), Becker et al. (2010), Crotty (2009), Dymski (2010), Gaffney (2009), Grahl (2011), Gills (2010), Hoogvelt (2010), Lapavitsas et al. (2010), Martins (2011), Mittelman (2010), Nousios and Tsolakis (2011), Thompson (2010), and Wray (2009).

benefits that the product evaluations would bring them, did not accurately assess the probability of non-payment[6].

On the other hand, we now know that, to quantify, assess, and manage risk, extraordinarily sophisticated tools based on long-term experience are required; however, these tools are inherently and dramatically imperfect. Considering that, even with series of data with abundant historical information, the belief that the economy was predictable led to an underestimation of the importance of past convulsions. In this way, the period of relative stability before the explosion of the crisis caused people to think that the risk had permanently diminished and that it could be managed in an optimum way, thus suggesting that a financial version of "the end of History" had been established. However, as we have learned at a great social cost, quantitative methods fail, especially when valuing infrequent events on a large scale. Simply stated, the more we need quantitative methods, the less accurate they are[7].

Finally, at this stage it seems clear that the public system regulating markets and financial institutions was too lenient and, as far as some activities were concerned, too easy to outwit. The excessive trust in market discipline on the part of public regulators and supervisors led them to maintain minimal regulations in some of the key countries of the global financial system. Even in the economies in which the regulations were supposedly stricter, financial institutions did not have much trouble removing specific activities from the regulatory perimeter. As a consequence, regulators and supervisors allowed for the accumulation of enormous risks. There is no doubt that the triumph of the past decades of the mythological vision of the Efficient Financial Market Hypothesis, both in the most theoretical branches of academic research and in the most practical branches of daily operations within international financial institutions, central banks, and financial marketplaces, is partly to blame for the inadequate public regulations, as we will later assert.

[6] Another possibility, regarding the operation and the historic behaviour of these agencies, is that they knew the risks of the products they were evaluating but decided, probably due to compensation, to collude with the financial operators who originated the toxic products to deliberately hide the real risk of such products.

[7] In fact, the origin of the problem stems from the well-known dichotomy in economic methodology literature (see, for example, Davidson (1991) or Ferrari-Filho and Conceicao (2005)) but ignored by mainstream Economics, between the post-Keynesian concept of *uncertainty* (the economy is unpredictable, and we lack certainty regarding what will happen) and the neoclassical concept of *probabilistic risk* (the economy is unpredictable, but we can estimate, with a certain error margin, a reasonable approximation of what will happen). It is easy to see which of the two theories won, after the recent crisis.

As a consequence, the combination of both market and public sector failures allowed the financial sector to profit too quickly and too easily, without ensuring appropriate adjustments to risk.

2.2.2. Macroeconomic and structural factors

In our opinion, four large categories of macroeconomic and structural factors lie at the root of the present economic and financial crises: *(i)* the existence of problems related to the accumulation of international economic imbalances with respect, fundamentally, to the balance of payments; *(ii)* the difficulties deriving from a long period of low real interest rates; *(iii)* the problems that emerged from the long period of increased inequality in the income distribution; and *(iv)* the triumph of the neoclassical ideology in contemporary economic thinking.

Regarding the balance of payments imbalances, for most of the decade preceding the explosion of the crisis, large and lingering current accounts surpluses and deficits generated net flows of capital from emerging countries -in which capital was scarce- toward industrialised economies -where it was abundant. This caused significant economic effects both in those economies with external financing capacity and in those with financing need. Such effects included an excessive domestic demand in some of the most advanced economies, an overabundance of savings, scarce investment opportunities, a demand for diversification on low-risk international assets, etc. However, the most important element, from our perspective, is the symbiotic relationship that was established between export-led growth in a certain group of developed economies and leverage-led growth for others, which generated large gross flows and enormous creditor positions on the part of exporting countries toward importing ones. These flows and these international positions contributed to the erroneous valuation of assets and to the propagation of the crisis across the world; as a direct consequence, they are the key factors in understanding the differential impacts on the main economies of the EU, as we will analyze below.

The second group of macroeconomic causes was originated during the period of low long-term interest rates that started in 2001 and that had important effects, among which was the increase in granted credits in many advanced economies, causing the prices of certain goods to soar in an unsustainable way (a paradigmatic example of this was real estate in Spain). The low long-term interest rates led institutional investors to search for new profitable sources and to take additional risks. The implementation of this monetary policy allowed three pieces of the international puzzle of imbalances to fit together: (1) an overabundance of funds available for loans at an aggregate level (but with significant financing capacity in the cases of China, Germany, Japan, and several emerging countries, and dramatic financing need for countries like the US, Spain, the UK, Italy, and Greece); (2) the search, on the part of international investors, for apparently highly profitable assets in countries with small saving rates; and (3) an attraction to risk on the part of such investors[8].

The third key element relates to the increased inequality and concentration of income and wealth distribution over the past decades, during which the neoliberal capitalism model evolved (Martins, 2011). Indeed, the triumph of the most radical postulates of neoclassical ideology has resulted in changing the balance of power relations between capital and labour, and in rising income concentration in the higher deciles of primary income and wealth distribution (Stockhammer, 2011). The increase in profits has not resulted in increased investments as expected, but the relative collapse in wages, has restricted workers' consumption and has provoked aggregate demand contractions at the international level, in addition to those caused by the restriction of public spending growth - especially in social expenditures- stimulated by the decreased tax burden of business profits and of the richest tax-payers. As Kotz (2009) pointed out, within the neoliberalism paradigm, the problem could only be solved in one way, that is, by making the majority of the population consume above their income, and hence, by going into debt. Resorting to debt was possible as a consequence of the financialisation and deregulation process associated with neoliberalism ideology, which allowed international financial capitals to flow in and fund current account deficits. This situation, in effect, links the problem of increased inequality with the problem of external imbalances as previously explained. Ultimately, the debt incurred as a result of the neoliberal deregulation process provoked the well-known "boom-bust" cycle that is characteristic of all financial crises[9].

Finally, the fact that the neoclassical mode of thought became the hegemonic school in Economics has very important consequences and ramifications on the discipline as a whole[10]. Regarding the crisis[11], this ideological triumph could materialise by elevating a

[8] See Tugores Ques (2010) for more details.
[9] See, for instance, Held and Kaya (2007) for an analysis of the increase in inequality at the international level and García-Arias (2004) for an analysis of the *boom-bust cycle* in the specific case of the 1997-99 Asian crises.
[10] See Saad-Filho and Johnston (2004) for an excellent study of the implications that the conversion of neoclassical economics into mainstream has had on the current evolution of developed economies.

mere performative belief to an axiomatic rank: the Efficient Financial Markets Hypothesis and its corollary more related to the issue at hand, that is, the implementation of a deregulation and dysfunctional liberalization process of international financial markets, that establish the definitive impulse for the transition from an industrial capitalist model to a purely financial one, thus making possible the practical performance of a "casino economy". Some of the most plausible and dramatic consequences of this process are related to a disproportionate increase in the resources exchanged on these markets, with the strengthening of systemic risk, with the recurring presence of banking, currency, and financial crises, or with the guarantees that national public sectors and international financial institutions have come to offer to the entire process, intensifying the problems related to moral hazard[12].

2.3. The differential impact of a world crisis: the case of the European periphery

If, as was emphasised in the previous paragraphs, the crises basically have an international dimension,, their clearly differential impact in some economies appear as a contradiction. Of course, this paper cannot analyze this fact for the international economy as a whole, so we will focus our analysis on the differential impact in the EU as it represents, in our opinion, a category and not a mere anecdote.

From our point of view, the differential impact of the crisis in the EU is the logical consequence of the existence of structural problems in the Eurozone, of the futility and contradictions of a purely mercantile and monetarist project of European construction and, consequently, of the absence of a real project of economic, social, and political EU.

As it is well-known, since the Eurozone's initiation in 2001, an internal division has emerged between the centre -which we could well associate with Germany but which also encompasses Austria, Holland, or France-, and an internal periphery -which consists of Spain, Portugal, and Greece, and also, although with a different model, Ireland and Italy- (Lapavitsas et al., 2010).

[11] See Lawson (2009) for a detailed analysis of the role that the triumph of neoclassical Economics in the academic sector has played regarding the emergence and evolution of the crisis, as well as in the elaboration of the "solutions" that were adopted by the majority of European economies to remedy its effects.

[12] See, among others, Agüera Sirgo and García-Arias (2000) and Toporowski (2011) for an analysis of the processes of liberalisation and deregulation of international financial markets and their most significant (and negative) consequences on the stability of the most developed economies; and García-Arias (2008, 2011) for a study about the impact on underdeveloped and developing economies.

This division within the Eurozone-in which the model of construction is based on a focus on super competitiveness and efficiency-, has entailed the progressive loss of competitiveness at the periphery as compared to the centre. This progressive loss caused systematic current account deficits in the periphery, which are, in turn, an almost perfect reflection of the lingering surpluses in the centre, especially in Germany. As Lapavitsas et al. (2010) shown, the eruption of a generalised instability across the EU in mid-2009 is simply a reflection of these current account imbalances in the Eurozone, combined with the intense and very rapid growth of a deregulated financial sector over the past few years.

In its least sophisticated version, the relationship between debt and current account balance is based on the basic macro-magnitude of an open economy with a public sector, that basically establishes that a surplus of savings as compared to private investment finances the public deficit and the external surplus or net external loans, which means that if a country imports more than it exports because it is not competitive abroad(i.e., if it has a current deficit), this external deficit must be matched by private and/or public debt.

On the other hand, given that it is necessary to have a balance of payments´ equilibrium, including the current account and the capital account, if a current imbalance exists, it has to be funded by flows of capitals from abroad, which can take the form of foreign direct investment, bank lending, or portfolio flows. These three types of foreign capital flows are different in many respects, but the difference in which we are most interested is that foreign direct investment does not generate debt, whereas bank lending and portfolio flows do.

In practice, in the Eurozone centre, growing current account surpluses have been produced since 2001, whereas systematic current account deficits have occurred in the periphery, which have been primarily funded with bank lending, mainly from German and French banks, and portfolio flows[13].

Now, if current account deficits occur in the periphery, which have been basically financed by debt-creating capital flows, who has actually absorbed this debt: the private sector or the public sector? The answer is quite simple in this case. The three countries that represent the quintessence of the periphery within the Eurozone (Spain, Portugal, and Greece), but especially the first one, have presented public surpluses or only slightly significant public deficits over one decade (1996-2007), primarily because these countries have been privileged participants in satisfying the EU Stability and Growth Pact. This

[13] See Lapavitsas et al. (2010) for formal analysis and statistic data.

agreement has compelled European peripheries to import the fiscal conservatism of the European centre, which theoretically aimed at increasing import credibility and gaining confidence from international financial markets. The public deficits only appear from 2008 to 2009, basically as a consequence of budget´s automatic stabilisers and of the implementation of policies that stimulated demand, bailed out financial institutions, and covered the social impact of the crises. In contrast, bank lending, primarily from German and French banks, and portfolio flows increased exponentially.

This suggests that the current account imbalances in the European periphery have been matched by private debt, which, in the case of Spain, corresponds to an intense increase in investments, particularly real estate, and, in the cases of Portugal and Greece, to a huge collapse in savings.

In short, the loss of competitiveness in the European periphery has led to a substantial current account deficit in these countries, which has been financed primarily by flows from abroad. Despite the "white noise" from mainstream Economics calling the public sectors in these countries spendthrift and inefficient, the fact is that there was no public debt before the crisis reached a mature stage. In contrast, the current account deficits are associated with substantial private debt. That is, unable to compete with the central European economies, the inefficient peripheral private sectors reacted by generating substantial private debt, which, in Spain, took the form of a real estate bubble and, in Greece and Portugal, prompted a collapse in private savings.

Moreover, this excessive debt situation would not have been possible without another nuclear element of the monetarist and mercantile EU construction process. This element results from member States deliberately opting for a process of financialisation and dysfunctional financial liberalisation, which was intensified after the introduction of the euro and which offered the private sector of the periphery the opportunity to cheaply go into debt due to the nominal interest rates of the Eurozone.

In other words, the differential impact of the crisis in the countries of the European periphery results from productive inabilities on the part of the private sector in these economies. These inabilities have been covered by resorting to (private) debt and are, ultimately, a direct consequence of the inappropriate design of the EU as a monetary and financial Union, but not an economic, political and social, Union.

To summarise, the deficits represent the fundamental cause of the present crisis. Nevertheless, the ones being blamed are not the public deficits that the mainstream points to; rather, they are the *financial deficit* –the inappropriate processes of liberalisation and deregulation of international financial markets and the generalised use of debt in the private sector; the *structural deficit* –the triumph of the neoclassical ideology and the accumulation of fundamental macroeconomic imbalances-; and the *social deficit* –the increased inequality in income and wealth distribution-.

3. Policies applied in the European periphery against the crises and some available alternatives

The public interventions designed both at the national and the international level in response to the recent crises episodes have been varied, from a geographical point of view and from a temporal point of view. This complexity naturally explains why we cannot analyze these policies in detail and why we will only establish some focal points especially centred on the economic policy measures established in the European periphery from the beginning of 2010, which, in our opinion, align with an archetypical category.

In general and in a necessarily simplified way, three main stages can be identified when examining the public responses to the crises: the first one would span the period between the origin of the crises until the end of 2008, when the basic objective was to prevent a systemic financial collapse from exploding. It entailed an emergency treatment and the administration of shock measures such as providing direct assistance to the financial system; low interest rates; expanding central banks' balances, assets, and liability endorsements to avoid massive deposit withdrawals; granting direct loans by tax authorities, central banks, and international financial organisms to allow for refinancing to avoid non-payment; giving capital injections to avoid insolvencies; nationalising financial institutions so that bankrupt institutions could continue to serve their clients; and eliminating low-quality loans in the balances of the private sector.

A second stage coincides with the explosion of the economic and employment crises and extends to early 2010, when the contraction of aggregate demand and the freezing of economic activity incited the development of somewhat more expansive fiscal and monetary policies. There was one peculiarity, however, in that the low interest rate policy kept boosting leverage, while fiscal stimuli were not substantial enough -or well-oriented enough- to stimulate aggregate demand. Thus, significant fiscal imbalances occurred (deficit and public debt).

The third stage was initiated in early 2010 and has continued until now. In this period, we can detect the application of various groups of economic policy measures in the peripheral countries of the EU (some of which have been reproduced, surprisingly, in central countries). All groups are different from each other but share their positioning within the different branches of neoclassical economic thinking. Without intending to be exhaustive, the cocktail usually includes at least the following elements: *(i)* austerity, basically manifested by the reduction in public expenditures; *(ii)* supply-side measures, including reforming the labour market, making lay-offs less expensive, reinforcing the power imbalance between labour and capital (all of which resulted, as expected, in increased unemployment, under-employment, and precariousness); *(iii)* money cuts in the basic elements of the solidarity-based Welfare State System such as reforms of pension systems, reductions in the amounts and number of grants available, an increase in public university fees, a reduction of official development assistance, and a reduction or elimination of subsistence benefits; *(iv)* tepid, partial, unconnected, and, very often, unilateral intervention measures in financial markets, which include the link to Basel III agreements, the creation of the European Fund of Financial Stability, the regulation of some specific financial operations[14], and other measures on the part of stock exchange regulators; *(v)* approaches to institutional reform, although more theoretical than real, with the most obvious examples being the discussion concerning the inclusion of the Growth and Stability Pact in the treaties, the hypothesis that countries that did not comply would lose their right to vote, the approval of the Pact for the Euro, which would prohibit salary indexing, the delay of the age of retirement, and the linking between retributions and productivity - without defining, of course, the significance of productivity and focusing the debate on the neoclassical concept of unitary labour costs-. In the best case, these economic policies have nothing to do with the presence of the three deficits outlined above that are at the root of the differential impact of the crisis in the Eurozone, thus confirming the adherence of the European governments to an economic policy model based on the most radical position of neoclassical orthodoxy.

We find no significant breakthrough in regulating global finance, in fighting tax havens, in modifying productive models, in laying solid bases for another model of environmentally sustainable growth, or even in de-growth. We find no move toward a model of an economic, political, and social union within the EU. Nothing has been done to

[14] To this extent, the dexterity with which Germany prepared to forbid short sales of credit default swaps in its national market in May 2010 while simultaneously showing (and still showing) a clear inability to coordinate specific and concrete regulations with its community partners within the EU area, typically illustrates the development of "every-man-for-himself" policies. According to our reasoning, these policies are not compatible with a serious EU project.

address the origin of the problem, that is, the balance of payment imbalances, the operation of deregulated, liberalised, and internationalised financial markets, and the income and wealth distribution inequalities[15]. The result is that most of the economic policies raised within the European periphery are either superfluous, counterproductive, or irrelevant.

Naturally, one may wonder whether there are alternatives to the political austerity established by the European institutions and almost all national governments within EU. While answering this question in detail would require a specific paper, we can at least isolate some of the major areas that should support an alternative anti-crises policy.

1.- One of the most critical points deals with the reversal of financialisation and dysfunctional financial liberalisation processes, which would necessarily include a deep and systematic re-regulation of international financial markets, based on, at the very least, establishing capital controls, increasing supervision and control measures, regulating and even forbidding specific financial operations, and establishing a European tax on currency transactions, which would be a preliminary step toward imposing a European financial transactions tax or even a global financial transactions tax.

In the EU case, this change should not only lead to control and re-regulation processes but, in the short and middle run, seems to make the consideration of more drastic alternatives inevitable. At this stage, it appears obvious that the "virtuous circle" -austerity through drastic public spending cuts will provoke a painful contraction in the short run but will restore the confidence of internal and external private initiatives, leading to a process of productive resurgence and net capital inflows- has not occurred. However, the consequences of austerity on production, employment, and the wellbeing of citizens of Europe's peripheries have been dramatic, and confidence has not yet been restored. It is not only necessary to abandon the austerity fiscal policy and the extravagant monetary policy implemented by the European Central Bank, but the EU may also have to face the fact that some peripheral countries will not be able to deal with their debt situations, meaning that at least a partial default (as Greece second bail out) through debt restructuring cannot be avoided. This obviously entails transferring at least part of the cost of the adjustment to creditors. On the other side, probably some countries should leave the Eurozone, hopefully in a non-chaotic way (perhaps in a "soft exit" through the introduction of a two-rate euro

[15] In fact, and as we will discuss later, the inspiration for a large part of the adopted policies entails a new type of deficit: the democratic one.

zone via the creation of a peripheral euro (EUR-P), with different exchange rates and different monetary and fiscal policies.

2.- A modification of the productive systems that, for many European economies, show obvious signs of oversizing for the productive capacity linked to the financial and construction sectors. This reorientation must be attached to the development of the information and communication technology revolution and to the change in the economic paradigm related to environmental sustainability. This link between the technological economy and the ecological economy is mandatory if we aim to ensure the present and future wellbeing of the people. That is why the productive sectors that are related to alternative energy and associated with factors such as fossil-fuels reduction, public transportation, care and dependence, lifelong permanent education and training, health and ICT, etc. must receive incentives and be rewarded with public resources, which entails, among other things, reintroducing concepts such as public planning and industrial policy into the economic discourse (Crotty, 2009).

3. A reduction in global imbalances. Various global imbalances, though different, are macro or microeconomically related and should be resolved or at least tempered together. These include *(i)* balance of payments imbalances entailing the existence of lingering current account deficits and surpluses. In the specific case of the EU, it proves incongruous that Germany should scold its european partners for showing imbalances when it bases its own model of growth on the existence and survival of these misalignment on the part of its commercial euro-partners; *(ii)* the contraction of domestic demand at the global level –the existence of which determines the implementation of beggar-thy-neighbour policies based on the export-led growth model that are at the origin of the current imbalances previously mentioned – that is linked, to a great extent, to the worsened income distribution. In the EU case, and in the short run, it is mandatory to eliminate inoperative and counterproductive directives of the Pact for the Euro, to unmask the supposedly positive effect of growth policies based on exports (the most famous paladin for which is Germany and other central economies of the Eurozone[16]), and to establish a

[16] As Papadimetrou et al. affirmed (2010), Germany's export-led growth has been based on a strict contraction of its labour costs (the same costs that have been systematically growing in peripheral economies, although they have remained far from the average remuneration in the heart of the Eurozone). In this context, the alternative for the European periphery has been to design intense policies of austerity and labour cost reductions.

macroeconomic coordination aimed at stimulating internal demand and, over the long run, developing a common fiscal policy that necessarily encompasses the centralisation of the majority of the tax resources in a refunded European budget; *(iii)* the inconsistencies provoked by the simultaneous existence of flexible exchange rates and free capital movements, which not only prevent autonomous monetary policies from being developed ("Impossible Trilogy") but also bestow all power and options on one party -the international financial markets- and none on the other one -the states- [17]. In the EU case, the moment has come to adopt serious and realistic decisions in terms of sovereignty in relation to the governance of financial markets, and the implementation of a currency transactions tax and other types of capital control appear to be one of the first necessary steps (Arestis, Ferreiro and Gomez, 2006; Aziz, 2005; Epstein, 2011; Ocampo, 2011; Schulmeister, 2010; Yates, 2009)[18]. *(iv)* Some imbalances in the international financial system, and specifically the role played by the USD as its reserve currency, provoke, among others, two biases that are worth mentioning. The first bias is against countries with current account deficits (except, of course, against the country emitting the reserve currency) that, in times of crisis and when considering the potential capital flights and a context of difficult access to external credit, are compelled to reduce their imbalances, whereas countries with surpluses are not faced with the same pressure to address their problems. The second bias is against developing countries that are compelled to accumulate reserves on industrialised economies' currencies as a way to protect themselves from a confidence crisis and from massive capital flights, which, in the end, implies the existence of net capital flows from developing economies toward developed ones. Of the available alternatives for modifying the system (return to the gold standard, introduce multiple reserve currencies, establish a real asset reserve at the centre of the system -like Special Drawing Rights (SDR), or create a Compensation Chamber or a World Reserve Bank that would emit its own currency –in the Keynesian bancor way), only the last two have real potential for operation, which is why reinforcing the role of SDR in the system seems to be a good preliminary measure whether moving towards a system *à la* bancor or not[19].

[17] Moreover, as Wade (2010) pointed out, the combination of flexible exchange rates and free capital movements has generated the most damaging evolution for each country at each time: real exchange rate appreciations in countries with current account deficits and depreciations in economies with current account surpluses.

[18] In relation to this issue, it must be noted that the literature has made a significant change over the past decade from a critical and sceptical point of view toward notable support, even in mainstream publications (Jeanne and Korinek, 2010; Ostry et al., 2010).

[19] See Wray (2009), Papadimitriu et al. (2010) and Ocampo (2010), among others, for a detailed analysis of these issues.

4.- A reduction in the levels of income and wealth concentration is in the basis of the consumption model based on debt and on the global freezing of aggregate demand, which, in turn, are some of the key elements explaining the present crises. Again, the EU, as a prime example of a well-developed Welfare State System and serving as an example for decades of the possibility of combining high levels of private initiative-led growth with income and wealth redistribution policies, can temper this dramatic process. In this way, it is necessary to make progress towards the harmonisation of direct income and business profit taxes (for example, by establishing minimum marginal rates), towards the harmonisation of capital revenue taxes (thus avoiding the implementation of tax competition policies that have resulted in tax pressure on capital to reach suboptimal levels), or towards the fight engaged against tax havens (beginning with those located in the territories of EU member states) which are drains for illicit and illegal capital flows.

Thus, it seems mandatory that we advance toward the construction of an authentic European budgetary policy that requires, as a preliminary step, designing a European budget, endowed with resources clearly higher to the present ones, and with expenses that will promote the convergence of economies. This would result in the provision of similar access to public and social services within the EU, a coordination of strategies against poverty, the development of a true regional European policy, and an increase in the net income transfers from high-productivity economies toward the least productive ones[20].

5.- Significant progress in global governance. While the misalignment between the main dimension of economic relations (global and/or international) and the dimension in which the main political agents operate (national) are one of the basic preoccupations of *International Political Economy*, the present crises have certainly honed in, with great intensity, on this dysfunctional aspect. Thus, it is mandatory to establish formal or, more feasible and likely, informal international organisations to coordinate at a global level financial and macroeconomic policies, understood as global public goods with weakest-link production technology. Hence, financial and macroeconomic policies are provided in a

[20] The structural current imbalances cannot be corrected with austerity and conjectural fiscal adjustment, but require aggregate demand and productivity policies, and others that fight against unequal income and wealth distribution. In a transitory way, the most productive regions should stimulate their domestic consumption, modify their export-led growth models, and increase their net transfers toward the least productive regions, which should, of course, modify their productive systems beyond the isolated from external competition sectors of weak demand,increase their productivity (both capital and labour productivity), and left behind a model of growth based on resorting to debt. It is, thus, evident that in the case of the EU, the Structural Funds have not operated in this way and constitute, *de facto*, a failure.

clearly inefficient and suboptimal level in the present scenario of "every-man–for-himself". Although the existence of an extended G20 (operating, in practice, with 22 or 23 seats) suggests more international representation as compared to the extended G7 (8 seats), both its representative function and its operation through a soft institutional system (which is certainly one of its strengths in terms of action ability), paradoxically constitute its main weaknesses, that is, too many members, absence of binding or sanction mechanisms, and difficulty moving from declarations of intention toward action. For this reason, it seems necessary to implement measures of reform for the G20 model (if we opt for boosting its function as a "world economic government" in the shade) and establish some of the international economic organisations suggested in the literature to manage more specific aspects of the international economic (dis)order[21].

Once again, the EU has the opportunity to present itself (and demonstrate globally) that it is more than a selective club for commercial partners by making progress in its internal macroeconomic, financial, and fiscal policy coordination, by leading the creation of new international organisations, by introducing some of the most obvious supranational measures that have received the largest consensus in the economic literature (i.e., a currency transactions tax , or a European tax on CO_2 emissions), or simply, and as a more aesthetic than fundamental point, by attending, in a unitary way and with one voice, G20 meetings and other international summits.

6.- Other measures laying the groundwork so that the next crises, when they occur, will not take us as much by surprise and will have less impact and so that we will be able to react earlier, more efficiently, and more fairly.

There are many policies that could be implemented with goals such as re-educating economists; increasing ideological and methodological pluralism; controlling financial markets; reducing the intensity of the incestuous relations between Wall Street and the European Cities with the governments at Washington and Brussels; reforming the operative principles of central banks, especially the European Central Bank (which is pledged to a monetarist fundamentalism and obsessed with inflationist trend while showing disciplined indolence, if not open contempt, towards increases in unemployment); fighting offshore

[21] The suggestions in this direction are unlimited: a World Tax Organization (Tanzi, 1999), a World Financial Organization (Eatwell and Taylor, 2000; Eichengreen 2009), a World Development Organization (Jha, 2004), and a World Tax and Financial Organization (García-Arias, 2002, 2011), among others. See the respective papers for a detailed analysis of their suggestions, justifications, and functions.

financial centres and tax havens; and designing a new productive and economic model, which first step should be an European Plan for sustainable development.

4.- Democratic deficit and neofeudalism trends as a consequence of the crises

As previously mentioned, one of the key elements of these crisis processes is that the implemented (and failed) way of resolution of the financial and economic crises has produced political and social (and hence, institutional) crises.

It has produced a social and institutional crisis because the designed policies of austerity have not only failed to solve any of the problems they claimed to solve, but have accentuated the present and future social imbalances in relation to the distribution of adjustment costs and of income and wealth. By action or by omission, factors such as salary moderation, the reduction of social and investment public spending, the renunciation to increase tax burden on the richest and on capital incomes, the bailout of financial institutions (and their shareholders and executives), the increased flexibility and deregulation of the labour market, the increase in education enrollment fees and the diminution of grants and scholarships, the reduction of health and assistance benefits, the increase in the age of retirement, and, in general, the policies associated with the Pact for the Euro, have set a pessimistic framework for the European Welfare State System and, more generally, for equity, justice, and the model of social construction that, at least in Europe, has allied, with different levels of success and intensity according to countries and times, capitalism and a certain dose of social justice.

It has produced a political and institutional crisis because the model of (non) resolution of the crises that has been imposed entails, *de facto*, the transfer of real sovereignty from democratically elected Parliaments and governments to international financial markets, with or without the cosmetic mediation of intermediaries with more democratic legitimacy, as is the case with EU institutions.

In this way, the genesis, evolution, and false resolution of the present crises could be laying the foundation for a new model of *globalized neofeudalism*, understood as a new “old social order”, which is closed but global. By *close social order* we refer (North, Wallis and Weingast, 2009) to a system in which small groups of elites have all economic and political control over resources, means of production, access to education and culture, and political power, and in which an informed mass of individuals live, in relative terms, in an economy of submission and survival. In contrast, an *open social order* suggests the conjunction of three factors: political democracy, economic progress, and a formal or informal Welfare State system, with the right to vote and the access to free, universal, and quality educational systems as basic elements, respectively, of representative democracy and porosity between economic and social classes.

By deepening the elites' power at a global level (in developed economies as well as in emerging and developing economies), by demonising compensatory public intervention (usually implemented by progressive taxation and social spending), by increasing the deterioration of public education and allowing the emergence of an educative excellence that is reserved for a minority[22], by dismantling the Welfare State System, and by overcoming of the "inoperative, populist, inefficient, and out-dated" democratic processes, these crises have extremely serious and dramatic consequences for present social, political, institutional and economic systems. Among the dire effects, this situation entails a submission, when designing the economic policy, to the desires and interests of global capitalism and internationalised, liberalised, and deregulated financial markets (with no face, no democratic election, and no accountability for their actions to Parliaments or citizens). This means that if citizens do not realize this situation and call for the reversal of the process, we could be taking the first steps on our way toward a new "old social order", closed but, in this case, global rather than national (which minimises the possibilities of escape), with a diluted developed/underdeveloped dichotomy. That is, we would have small global groups of elites holding political and economic power and monopolising income and productive and educational resources, as opposed to frightened, drowsy, and submissive majorities with survival income, casual employment, and the promise of blood, sweat, and tears in order to reach a hypothetically better future (which is already available in the present given the level of available income at the national and world level, but it is always postponed as an incentive for individual super-competitiveness) among those who are made to believe that they are responsible for their own failures[23, 24].

[22] The present economic model, which, contrary to what is assumed, is not just based on the economy of knowledge but on the concentration of economic power in a few hands, requires elites with immense talent and excellence in education to lead our future and innovate, and some intermediate executives (more obedient and frightful than creative) who will do what they are told. Obviously, a massive low-qualified workforce is also needed (semi-enslaved in underdeveloped economies and with no labour rights at the margin of developed ones) to ensure that the least creative and glamorous aspects of the machinery work. This model, consequently, requires a dual educational system: a public one for universal low-quality education and a private one for those who can afford higher educational standards. This system is based on the super-competitiveness that will encourage the strategies of self-preservation and social stratification.

[23] Tautological failure, as success is reserved for the elites, necessarily has to exist in a proportionally small fraction of the total population.

The establishment of an apparent *soft global governance* leaning on the extended G20, the globalised financial markets and the existing supranational institutions (IMF, WB, EU) pillars is, in fact, a hierarchic, unfair, lawless, antidemocratic, non-equalitarian, and everything-but-soft global governance based on control of the elites. It better seems to be a *fuzzy global governance* that, in fact, leads citizens toward a new form of feudalism (neofeudalism) with a global dimension.

If we focus again on the case of the EU, the current models of crises, and especially their differential impacts in the European periphery, clearly show the existence of a very significant group of institutional deficiencies. Due to space limits, we will only distinguish two of them: *(i)* the inadequate design of the European construction process, and *(ii)* the fragility and futility of the democratic systems at the very heart of the economies with the oldest, and supposedly some of the most consolidated, representative democracies.

Regarding the first issue, the design of the model of European construction has shown, maybe from the beginning, but with no doubt since the Maastricht Treaty, a clear aim to consolidate a purely mercantile union for which the following steps have been necessary: establishing purely nominal convergence criteria, establishing a merely monetary (and obsessed with inflation) union, and establishing fiscal restrictions as those in the Stability and Growth Pact or the even more radical measures established in the Pact for the Euro. However, all attempts to create an authentic Economic union that would include pacts in fiscal, tax, economic regulation financial, or energy policies have been abandoned. Similarly, all attempts to establish a Social union, with agreements on European social protection, development and consolidation of the Welfare State systems or income policies, have also been abandoned. Furthermore, all efforts to create a Political union that would establish not only a common voice in foreign policy but would also be able to correct some of the democratic deficits that define the present process of European construction have been abandoned.

Moreover, as for the dramatic events that have occurred in the main peripheral European countries since the first Greek bailout, it is clear that the effective control of democratic governments is not exerted by citizens nor by national Parliaments or European

[24] In some way, this globalized neofeudalism could be understood as the final stage of a process of *new constitutionalism of disciplinary neo-liberalism* (Gill, 2008), defined as a "*political project aimed at anchoring neo-liberal policies of privatisation, liberalization and pro-market regulation, as well as monetarist objectives, into national and international legal frameworks, insulating these policies from normal, day-to-day democratic debate and decision-making*" (Lesage and Vermeiren, 2011, 43).

institutions[25]. On the contrary, the real control of European national governments is exercised by financial markets, speculators, and international creditors, who by assuming the function of judges (and parties) to regulate the viability, quality, and stability of national economic systems use international financial organizations and European institutions as drive belts for their personal interests and decisions. A situation such as the one that occurred in Greece (on its second bailout, by the moment), Ireland, Portugal, Spain, or Italy cannot be called anything but a process of subversion of democratic systems or, at least, of their traditional functioning.

The pathetic pilgrimage of peripheral countries' Ministers and Deputy Ministers of Economy to the main international financial marketplaces and their meetings with the staff of ultra-liberal newspapers, executives from rating agencies, and some of the most active dealers and brokers in the design and application of strongly destabilising speculative practices, gives a precise idea of who the "new social agents" are, and to whom the European countries´ governments are responding for their policies. This transition from democratic governments controlled by Parliaments and citizens to governments controlled by financial executives and international dealers, indicates that the European democracy may have made a dramatic turn, which, if not corrected, could give way to a warded pseudodemocratic system[26].

Evidently, this soft model of democratic subversion does not work or appear to be a traditional *coup de force*; however, it shares with such a coup some of its consequences. For example, there is no need to threaten or replace the presidents of democratic nations or to exert political or military control over parties, media, trade unions, or societies. To control economic policy it is enough merely to warn the government (and hence, the nation) of the dangers that hover over the country's economy (and, thus, threaten political and social stability) if the economic measures suggested by international financial markets and orthodox economists are not adopted, along with an acceptable timetable for the application of the painful reform measures.

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[25] This, in fact, would be good news as it would mean that progress have been made toward a real Political union inside the EU. A Political union that would move, in this hypothetical case, toward the wrong direction: austerity, dismantling of the Welfare State, giving up of the fight for interregional and interpersonal equity, etc. At least, however, this incorrect trajectory could be corrected and possibly be amended by new majorities democratically elected in the future.

[26] In this way, the citizen movements of protest, which have emerged and expanded in Spain, Greece, Portugal, Italy, the UK, etc., and the emerging or consolidating of heterodox groups of economists and other social scientists, (with their institutional attributes such as societies, congresses, publications, pamphlets, post-graduates, etc.), constitute a focus of hope and resistance against the steamroller of the consummate facts in the designing of the anti-crises economic policies, and can constitute the seed for a transformation toward a new model of European construction.

It is superfluous to wait for countries to be on the edge of default because of their trouble finding funding at a reasonable price on the international financial markets (as in the case of Greece, Ireland, or Portugal) and then to impose a group of neoliberal adjustment measures, as even mentioning the (remote) possibility of such a situation is sufficient to result in appropriate action, as evidenced in the case of Spain.

In our opinion, the key moment is the submission of the nation-states and of supranational institutions such as the EU to the elusive and erratic mandates of the international financial markets. Again, the events that have taken place in Greece, Ireland, and Portugal are presented as the logical consequence of a *de facto* situation of insolvency, and the requirements of the markets are canalised, which is even more worrying, through the voice of European institutions, as if they were the logical petitions of creditors over debtors. Again, the case in Spain reveals the real cause of the requirements: Spain shows much lower deficit and public debt levels than most of the EU central countries, its banks enjoy much fewer worrisome situations than Germany, the UK, France, or Italy. Spain was able, until april 2011, to systematically place in markets all of the debt titles it needs, with interest rates ranging from 230 to 300 basic points over the German bond. Its pension system represents less than 9% of the GDP while, in most European countries, it represents more than 10% and reaches 12% to 14% in some central economies. However, the markets appear to demand more and more austerity by forcing continuous cuts in public spending, reforms of the Welfare State, and an endless list of antisocial measures based on the usual myths of neoliberal ideology that are either superfluous or counterproductive in facing the essential problems of the Spanish economy, such as the massive unemployment and the inability of its productive network to reach adequate productivity levels, added to a tremendous problem with tax evasion and underground economy, the inability to reach the same levels of income and wellbeing as the central economies of the EU, and a dramatic (and growing) duality in income and wealth distribution.

In summary, the EU, far from confronting the financial, structural, and social deficits that provoked the collapse, has designed and applied (advised by a group of economists attached to the most radical visions of orthodox economic thought, been at the origin of many of the present problems) economic policies that, far from resolving the crises, strengthen imbalances and, adding to the deficient political and institutional design of the EU, produce a resounding democratic deficit.

The EU is confronting a challenge of historic proportion and must decide upon its path. There are, basically, three options: *(i)* maintain the *statu quo*, thereby deepening the policy of austerity, neighbour impoverishment, submission to financial markets, super-competitiveness, expansion of social and territorial inequalities, and the Pact for the Euro; *(ii)* end, by different means, the euro project (for instance, by some peripheral economies exiting the euro -whether in a programmed, negotiated and controlled manner or by abruptly restructuring the debt[27], which implies, in fact, a partial default– or by the establishment of a dual centre/periphery euro system) with a consequent risk of endangering the European project; or *(iii)* advance toward an authentic economic, political, and social union based on macroeconomic and fiscal coordination (such as an increase in the European budget, a harmonisation of direct taxation, a strengthening of regional policy, changes in the production model and an Energy and Environment Pact), in the regulation of financial markets (capital controls, taxes on currency transactions, etc.), and in the strengthening of European and global governance (strengthening of European institutions, a unitary voice in international organisations, a support for the creation of new supranational economic organisations, etc).

In our opinion, while some of the defining elements of the three routes are not incompatible and can exist simultaneously, only advancing in the third direction will contribute to and support a future of economic stability and social wellbeing in Europe.

5. – Conclusions

In this paper, we have analyzed the origin of the current crises as the confluence of three serious imbalances that have arisen over the years (in some cases, decades) prior to the advent of the crises. Thus, we have outlined three deficits: a financial deficit provoked by the process of financialisation and dysfunctional financial liberalisation and its derived implications (such as the oversizing of international financial markets, the presence of distorted incentives, deficiencies in regulation and supervision, herding behaviour, and limited and bounded rationality); a structural deficit related primarily to the accumulation of international macroeconomic imbalances (such as in the balance of payments, in the design of monetary policies, in the exchange rate system, in export-led growth models, and in private indebtedness); and a social and institutional deficit that is founded on the growth of inequalities in the distribution of income and wealth, and on a lack of significant

[27] Differences are extreme. See Lapavitsas et al. (2010) for a detailed analysis.

advances toward global governance or, in the specific case of the EU, on the design of a purely mercantilist and monetarist process of European construction.

The confluence of these three elements has provoked a perfect storm within developed economies, occurring in a more accentuated form in the EU and in a specific and differential form in its peripheral economies. The evolution of this situation is the consequence of not only those general elements previously indicated (and specifically of the policies of export-led growth designed in the EU centre and the policies based on leveraging in the periphery, added to the productive incapacity and excess private indebtedness in these peripheral economies), but also of a dysfunctional and unbalanced process of European construction, in which monetary and economic advances have not been accompanied by decisive steps toward fiscal, political, social, and institutional integration.

The severity and intensity of the crises, the analysis of their causes, and the fact that they are striking with greater intensity those economies with greater levels of development (and, thus, with greater margins of maneuverability), offer the opportunity to ask important questions about the economic, social, and institutional future and to reformulate the economic model (and mainly the orthodox economics one) that is at the origin of these events. Lamentably, we are observing that for these new challenges and new crises, economic and political leaders are resorting to old policies. That is, they continue to deepen the financial, structural, social, institutional, and democratic deficits rather than to pursue their resolution and they maintain their commitment to the invocation of the capacity of crises victims to sacrifice, to the submission (if not the exaltation) of the victimisers, and to the systematic trimming of economic and social rights that have taken decades to achieve.

Within this path of crises resolution, two elements are especially worrisome. First, it is not working. That is, not only is the crises not being resolved but, as one might have thought, a worsening of described deficits (the causes) is generating an intensification of the problems (the consequences), especially with respect to the loss of employment, an increasing of the social fracture, a deepening of financial capitalism and the intensification of political and institutional crises.

Second, this process is creating a new deficit to add to previous ones, that is, a democratic deficit. Indeed, the submission, especially in Europe, of national governments, international organisations, and European institutions to the plans and interests of the international financial markets and world economic elites could ultimately configure a new "old social order" on a global level: a *globalized neofeudalism* in which elites have access to increasing levels of income and wellbeing, while the mass of ex-citizens are condemned to fuel the economic process and to consume, but are incapable of influencing political and economic decision-making processes as they are led by governments that respond not to their Parliaments and citizens but to the aforementioned international financial markets and global elites.

This threat appears to be real and credible, and therefore, it is the responsibility of all identified parties to contain and reverse this process by applying a different way of crises resolution, by implementing some of the proposals discussed above and by returning the political decision-making capacity to the national governments, the democratic supranational institutions (like a reoriented EU), the Parliaments, and the citizens. And it is imperative to control and regulate international financial markets and leave behind old mainstream economists´ advices (both at the origins of the current crises). A fair and efficient evolution of the economy and the future wellbeing of the European (and hence, world) population dramatically depends on it.

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