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Neoliberalism: sustainable?

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Alla mia famiglia,
di cui vado estremamente fiera
e senza la quale non potrei essere la persona che sono.

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Abstract

A giugno 2016 sul sito ufficiale del Fondo Monetario Internazionale, l'organizzazione dedita a prevenire crisi economiche e favorire la cooperazione tra paesi, venne rilasciato un articolo accademico intitolato "Neo-liberalism: oversold?" in cui vengono messe in discussione le principali politiche attuate in campo economico e monetario negli ultimi quarant'anni, in quanto i loro effetti e le loro conseguenze nell'ambito sociale stanno creando un mondo sempre più iniquo in cui i più benestanti ricevono sempre più vantaggi, mentre gli individui appartenenti alle classi medie e basse ricevono sempre più pressione. Tale iniquità viene definita nell'articolo come una minaccia per la crescita economica, fattore fondamentale per la sopravvivenza del sistema capitalistico su cui tutto il mondo globalizzato si basa. Senza una riprogettazione e ripensamento di politiche fiscali, tenendo in considerazione anche il loro effetto distributivo nella società, il futuro dell'intero pianeta si presenta insostenibile. Tali politiche vengono etichettate con l'aggettivo "neoliberiste" e l'obiettivo del presente elaborato è innanzitutto di mostrare e spiegare le varie caratteristiche che questo aggettivo porta con sé e di come nel corso degli anni l'implementazione di tali politiche abbia trasformato il mondo economico e sociale fino ad arrivare ad oggi, in cui l'episodio più recente della crisi finanziaria del 2008, e le successive crisi derivate, specialmente quella europea, abbiano rappresentato una vera e propria dimostrazione di quanto l'ordine finanziario e globale correnti dominati dal neoliberismo non siano più sostenibili.

Il primo capitolo è dedicato alla definizione di neoliberalismo, al suo percorso di sviluppo storico per poi successivamente passare alle principali caratteristiche che compongono questa ideologia, chiudendosi con la descrizione di come gli effetti e le conseguenze che le politiche neoliberiste abbiano formato il particolare tipo di ordine che vige oggi nella società globale: la globalizzazione.

La definizione "*da dizionario*" di neoliberalismo pone come premessa la difficoltà di dare una spiegazione esaustiva poiché comprende diversi significati. Il modo più diretto ed efficace per definirlo, tuttavia, risiede nello scomponimento del nome in "neo" e "liberismo", per capire che è una rielaborazione dell'ideologia liberista sviluppatasi a fine '700, focalizzandosi però specialmente sull'aspetto economico: il liberismo economico, infatti, si fondava principalmente sul concetto di libero mercato proposto

dall'economista inglese Adam Smith e di come tale tipologia di mercato nascondesse una propria forza interna capace di aggiustare gli eventuali shock e riportare la situazione in equilibrio garantendo benessere a tutti gli strati della società. I principali pensatori neoliberalisti useranno, appunto, il concetto di libero mercato come punto di partenza per la loro analisi.

Sebbene sia impossibile tracciare una data d'inizio della diffusione di tale dottrina, il luogo può essere circoscritto all'America Latina, poiché le politiche neoliberiste iniziarono a diffondersi in risposta al movimento chiamato "developmentalism", il quale prevedeva una forte collaborazione tra Stato e settore privato per un efficace sviluppo dei paesi del Terzo Mondo nell'era post seconda guerra mondiale. Il conflitto di interessi che venne a crearsi tra intervento dello Stato in materia economica e le multinazionali nordamericane che sfruttavano il territorio latino americano per i propri profitti divenne l'occasione per i promotori delle politiche neoliberiste di porre in atto le loro credenze, in quanto queste vennero a combaciare con gli interessi delle corporazioni statunitensi.

Le idee in materia economica promosse dai principali esponenti neoliberisti Milton Friedman e Friedrich von Hayek furono alla base della formazione di pensatori, i cosiddetti "Chicago Boys" -per l'ubicazione dell'università in cui studiavano-, responsabili di implementare nei paesi dell'America Latina, primo fra tutti il Cile, politiche neoliberiste. Il velato successo del Cile convinse i presidenti delle principali potenze del tempo, Stati Uniti e Regno Unito, di sottoscrivere una rigida agenda neoliberista per promuovere la piena crescita economica nei loro paesi; sono gli anni 80 principalmente che vedono il riconoscimento di tale dottrina come vincente, per le forti e controverse decisioni intraprese da Ronald Reagan e Margaret Thatcher nei rispettivi paesi d'influenza. Tali politiche di stampo neoliberista saranno successivamente indicate come requisiti fondamentali per i paesi colpiti dalla crisi del debito degli anni ottanta per ricevere un prestito dalle organizzazione internazionali, primo fra tutte il Fondo Monetario Internazionale. Il prestito veniva infatti concesso inscindibile ai cosiddetti "piani di aggiustamento strutturale" che richiedevano un rinnovo della struttura economica del paese nella direzione auspicata dai sostenitori delle politiche neoliberiste, in modo da abbattere le frontiere e permettere alle multinazionali occidentali di entrare nei territori altamente sfruttabili dei paesi in via di sviluppo.

Le politiche richieste all'interno dei piani di aggiustamento strutturale riguardano principalmente l'apertura del mercato, la privatizzazione sia di industrie chiave sia di ogni tipo di attività in generale e un taglio alla spesa pubblica per diminuire l'intervento dello Stato in materia fiscale ed economica. Lo Stato, infatti, rappresenta per i neoliberisti il principale nemico, in quanto ritenuto responsabile delle distorsioni economiche che generano inefficienza e non permettono una crescita costante che sia a beneficio dell'intera società.

L'implementazione su larga scala per 40 anni di tali politiche che vedevano nel libero mercato il cardine principale ha guidato l'ultima fase del processo di globalizzazione, sia in termini di economia "reale", sia in termini di economia "finanziaria". La globalizzazione, infatti, con l'abbattimento dei costi di trasporto e le innovazioni tecnologiche ha permesso, e permette tutt'oggi, uno spostamento veloce ed agevolato sia di persone che di merci. Il primo problema viene a verificarsi con l'effetto che tali politiche hanno avuto nel settore finanziario; il costante sforzo di deregolamentazione da una parte e la velocità con cui si muovono le informazioni grazie all'innovazione tecnologica, hanno creato un ambiente caratterizzato da poca trasparenza in cui flussi di capitale si muovono rapidamente dove vi è più probabilità di profitto, piuttosto che dove sono necessari. Se il capitalismo presuppone l'efficiente allocazione delle risorse per mantenere il proprio equilibrio interno, il risultato nel settore finanziario è stato l'opposto. Se prima della rivoluzione tecnologica la finanza rappresentava un mezzo fondamentale per l'economia poiché proteggeva depositi e garantiva prestiti per investimenti produttivi, ora il suo ruolo è diventato dominante ed è il settore finanziario a controllare l'economia utilizzando i propri strumenti speculativi; è stato proprio dal settore finanziario, infatti, che la recente crisi si è sviluppata e, per effetto della globalizzazione ha velocemente raggiunto l'Europa e l'Asia sfociando in una crisi di carattere globale.

L'apertura e la deregolamentazione del settore finanziario introducono la prima parte del secondo capitolo, in cui infatti viene preso in considerazione per un'analisi più accurata lo sviluppo del settore finanziario o la cosiddetta finanziarizzazione dell'economia. La finanza ha infatti giocato un ruolo preponderante nell'esplosione della crisi, nella contrazione di alti debiti sovrani da parte dei paesi europei e nell'aumentare la disuguaglianza all'interno della società, in quanto i suoi strumenti

permettono ai più ricchi di estrarre ricchezza dalle classi più povere; un excursus storico sul ruolo della finanza prima e dopo la diffusione del neoliberalismo ne spiega appunto l'interconnessione.

La seconda parte del secondo capitolo, poi, avanza un' analisi più pratica degli effetti di uno dei punti forti dell'agenda neoliberista: l'austerità. Per inserire in un contesto pratico e concreto il concetto di neoliberismo e di politiche tradizionalmente definite neoliberiste verrà usata la crisi del debito europeo che colpì il Vecchio Continente subito dopo lo scoppio della crisi finanziaria del 2008 negli Stati Uniti. L'Europa fornisce un valido esempio del fallimento di tali politiche poiché la propria struttura nacque per mano di chi credeva fortemente nella dottrina neoliberista e i difetti di tale struttura emersero uno dopo l'altro dopo appunto lo scoppio della prima crisi che l'Europa unita si trovò ad affrontare. La causa maggiore della crisi viene infatti individuata nell'uso di una moneta unica da parte di stati con strutture economiche differenti, che ha impedito di reagire allo shock economico in maniera tradizionale con politiche monetarie differenziate in base alle caratteristiche interne di ogni paese. Al momento di attuare politiche in grado di risollevare l'economia europea, però, la struttura dell'Unione non fu messa in discussione, al contrario vennero incolpati della crisi i paesi già maggiormente colpiti e venne individuato il problema principale nel debito. Come diretta conclusione per la soluzione di questo problema venne deciso di implementare dure politiche di austerità all'interno dei paesi già indeboliti. Segue una descrizione di ciò che si intende per austerità e principalmente prevede un aumento della tassazione, principalmente alle classi di fascia media e bassa, tagli consistenti alla spesa pubblica e quindi a tutti quei settori che si possono riassumere con il termine "welfare", come l'educazione e la sanità e tagli alle pensioni. La diretta conseguenza di tali politiche è risultata in un aggravarsi della recessione in quanto coloro che si ritrovarono disoccupati dopo la prima ondata di recessione si videro togliere anche quei piccoli benefici assicurati dal settore pubblico, mentre un ulteriore taglio alle spese pubbliche andò ad incrementare il livello di disoccupazione. Nonostante i disastrosi effetti di tali politiche, i tecnocrati europei incaricati di dare un nuovo stimolo all'economia, continuano a imporre forti dosi di austerità ai paesi più indebitati, questo sia per una credenza imprescindibile nelle forze del libero mercato e della sua forza interna che permette il proprio aggiustamento automatico in risposta ad un eventuale

shock, sia perché alla fine le politiche di austerità hanno funzionato. Esse hanno infatti permesso di ridurre il debito e di ripagare gli interessi ai detentori dei bond di quei governi e hanno permesso di salvare le banche nazionali europei di quei paesi economicamente "forti", anch'esse responsabili di larghi prestiti ai paesi più colpiti dalla crisi. In linea agli avvenimenti storici, il neoliberalismo si rivelò anche in Europa sostenitore delle classi sociali più ricche, poiché queste politiche vennero sponsorizzate dalla cosiddetta "Troika", un gruppo di tre istituzioni incaricate di risollevare l'economia del continente. Il gruppo venne infatti composto da funzionari del Fondo Monetario Internazionale, della Banca Centrale Europea e dell' Unione Europea. L'austerità venne "venduta" inscindibilmente insieme ai prestiti concessi ai paesi più colpiti dalla crisi per evitare che andassero in bancarotta; ma come successo negli anni ottanta con i paesi dell'America Latina, tali prestiti potevano essere concessi se e solo se i governi avessero adottato politiche di austerità accompagnate da riforme strutturali; queste ultime verranno accennate per dare al lettore uno sguardo d'insieme su ciò che effettivamente è avvenuto nei paesi principalmente del sud - Europa in risposta alla crisi.

L'analisi prosegue con l'ultima parte del secondo capitolo in cui viene descritta nello specifico la situazione della Grecia, poiché rappresenta il caso-limite ed eccessivo degli effetti di una forte dose di austerità imposta da terzi senza valutarne le conseguenze.

Vengono introdotti inizialmente gli effetti che la crisi ebbe sul paese e un excursus storico, descrivente le cause per cui l'ammontare del debito greco era già eccessivo in quel momento, mostra come questo sia stato prodotto da fattori sia endogeni, come la dilagante corruzione della classe politica, sia da fattori esterni, come l'eccessiva e sregolata concessione di credito da parte delle altre banche nazionali europee. Al momento dello scoppio della crisi, quando vennero rivelate le vere cifre dell'ammontare del debito greco, alla Grecia furono chiuse le porte del mercato finanziario e il governo si trovò impossibilitato a richiedere prestiti per ripagare quelli arretrati con annessi interessi. È in quel momento che la Troika decise di intervenire focalizzando le politiche contenute nei suoi programmi obbligatori sulla riduzione del debito, piuttosto che nel salvaguardare il bene comune e il benessere dei cittadini, in modo da riguadagnare la fiducia dei creditori e permettere alla Grecia di ripagare ciò che era dovuto ai creditori principalmente tedeschi e francesi. Il capitolo prosegue con un'analisi delle politiche di

austerità, spiegate precedentemente in linea generale, applicate al caso greco e di come queste abbiano influenzato sia sull'economia, causandone un rallentamento della crescita e sulla società, aumentando il tasso di disoccupazione, principalmente tra i giovani, e aumentando il divario tra classe benestante e classe medio-povera a causa dei tagli al programma di welfare e a sistemi di tassazione distortivi. Nonostante i risultati ottenuti da ogni implementazione del programma politico contenente massicce dosi di austerità, nel 2015 la Grecia viene ancora una volta "caldamente invitata" dal gruppo di tecnocrati europei ad attuare il suo terzo programma di austerità, chiamato "di salvataggio" per alleviare le percezioni contrarie a tali politiche da parte dei cittadini. Le conseguenze che le politiche di austerità hanno avuto nel paese sia a livello economico e sociale sono dimostrate anche attraverso dati numerici per facilitare la comprensione del loro forte impatto.

Tali effetti circoscritti alla realtà greca creano l'anello di congiunzione con il terzo capitolo, in cui viene presentato come il sistema di oggi, favorito e controllato da politiche neoliberiste, favorisca l'incremento della disuguaglianza, non solo tra paesi diversi, ma anche all'interno dello stesso paese tra le diverse fasce di reddito. Il capitolo si rivela di estrema importanza per la comprensione del perché tali meccanismi regolati da politiche di ispirazione neoliberista non siano più sostenibili nel futuro, in quanto la disuguaglianza, non solo viene menzionata dal Fondo Monetario Internazionale come minaccia alla crescita economica, ma viene anche inserita tra le principali minacce all'insostenibilità del Pianeta dal Forum Economico Mondiale. Il modo in cui le politiche di austerità influenzino l'incremento del livello di disuguaglianza costituiscono la prima parte del terzo capitolo, in cui viene anche introdotto il concetto di "plutocrazia", ossia il potere che le corporazioni, e i ricchi in generale, hanno in merito alle decisioni di politiche da attuare intraprese dal governo. Ciò a cui si sta assistendo oggi, infatti, è un esempio di come spesso i governi siano sottomessi agli interessi delle grandi corporazioni e attuino politiche in loro favore, piuttosto che in favore della collettività. Il caso europeo serve ancora una volta ad esplicare tale meccanismo e ciò viene infatti descritto nell'analisi del ruolo che la Banca Centrale Europea, membro della Troika, ha avuto nell'affrontare la crisi.

Essendo le politiche di austerità solo un esempio tra i tanti modi in cui il livello di disuguaglianza può aumentare a discapito delle classi meno abbienti, ed essendo la

disuguaglianza un problema di carattere globale e non solo circoscritto alla realtà europea, la seconda parte del terzo capitolo prosegue con l'analizzare tutti gli altri metodi attraverso cui la ricchezza riesce ad essere "estratta" da parte dei più ricchi dalle già scarse risorse dei più poveri, piuttosto che "creata" a beneficio di tutti. Dopo aver chiarito precisamente la definizione di ricchezza e della differenza tra il concetto di creazione di ricchezza contrapposto a quello di estrazione, viene introdotto attraverso un breve excursus storico il concetto di disuguaglianza, che si rivela essere stato sempre presente nel corso della storia seppur sottoforme differenti. L'analisi prosegue, poi, spostandosi ai nostri giorni e riconoscendo nelle cause di disuguaglianza principalmente il possesso di assets da parte dei ricchi che permette loro di richiedere una somma di denaro in cambio della concessione ad usare le proprie proprietà, senza tuttavia produrre ricchezza. Un'altra causa dell'incremento di disuguaglianza più concerne ai fini dell'elaborato viene esplicata successivamente e riguarda il meccanismo di riscossione degli interessi sul credito; una delle principali cause per cui gli stati colpiti dalla crisi si sono trovati in difficoltà e obbligati ad accettare pesanti politiche di austerità fu infatti perché non solo il debito stava crescendo in maniera insostenibile, ma anche perché gli interessi da pagare sui prestiti concessi divennero a loro volta insostenibili, poiché in alcuni casi raggiungessero una quota superiore all'ammontare dei soldi presi in prestito. Il sistema degli interessi sul debito pubblico –e privato- è definibile, appunto, come una moderna forma di schiavitù delle classi meno abbienti nei confronti della ridotta percentuale di cittadini benestanti. L'analisi continua soffermandosi su come anche la globalizzazione in sé, soprattutto dei mercati finanziari, abbia aiutato queste attività di estrazione della ricchezza a prevalere sulla loro controparte; infine, viene descritto come anche il sistema di tassazione, centrale nelle politiche di austerità, influisca sulla redistribuzione del reddito e della ricchezza all'interno di un paese, in quanto si tratta di una delle politiche con maggior forza redistributiva nelle mani di un governo.

La terza parte del terza capitolo, infine, conclude e completa l'analisi della disuguaglianza, e di quanto costituisca una minaccia per la sostenibilità del Pianeta, partendo dall'asserzione presente nell'articolo accademico del Fondo Monetario Internazionale, in cui viene affermato che la disuguaglianza rappresenta una delle maggiori minacce a una stabile e continua crescita economica, cercando di estrapolare le ragioni per cui si è arrivati a tale conclusione. Il discorso prende, altresì, in

considerazione non solo gli aspetti economici dell'indagine, e quindi la misura diretta in cui la disuguaglianza influisce sulla crescita economica, ma considera anche i fattori indiretti, principalmente di carattere sociale e soggettivo, ossia come la percezione di vivere in una società non equa possa influire sulla produttività. Tra gli aspetti prettamente economici si incontrano principalmente gli effetti che la disuguaglianza provoca sulla domanda finale di beni e servizi, riducendola drasticamente, soprattutto a causa del crescente tasso di disoccupazione; per quanto riguarda la sfera indiretta e soggettiva, si prendono in considerazione le conseguenze che tagli alla spesa pubblica, principalmente nel campo della sanità, hanno sulla società. Crescenti tassi di malattie influiscono, infatti, negativamente sulla volontà di produrre da parte dei cittadini; non solo, il sistema consumistico creato dalla struttura neoliberista durante gli ultimi quarant'anni ha fatto in modo che l'incremento della disuguaglianza porti a un desiderio sempre più prorompente da parte delle classi meno abbienti di intraprendere lo stile di vita dei più ricchi, nonostante non abbiano le risorse per farlo e tali atteggiamenti hanno l'effetto di incrementare il livello di disuguaglianza già dilagante all'interno della società.

Il capitolo conclusivo, infine, vuole mostrare che il neoliberalismo non solo è diventato insostenibile per il futuro delle prossime generazioni a causa delle disuguaglianze che si stanno ampliando e che secondo l'ultimo rapporto Oxfam vedono le 85 persone più ricche al mondo detenere tanta ricchezza quanto metà della popolazione mondiale; ma anche perché l'eccessiva deregolamentazione e la ricerca di profitti sempre più grandi da parte delle corporazioni e delle grandi multinazionali ha presentato un ulteriore problema di impossibile posticipazione: il cambiamento climatico. Un discorso esaustivo sul cambiamento climatico richiederebbe un elaborato a parte, ragione per cui nella prima parte dell'ultimo capitolo viene accennato ciò che è utile all'analisi finale della tesi, ossia come la crescita economica spinta e sostenuta da politiche neoliberiste abbia influenzato sul surriscaldamento globale e su quanto la parte più ricca di popolazione sia effettivamente responsabile della maggior parte delle emissioni, in quanto il loro stile di vita consumista ha un impatto molto maggiore a livello climatico e di risorse rispetto a un cittadino di bassa estrazione sociale.

Successivamente, prima delle conclusioni, vengono riportate una serie di possibili "soluzioni" al problema della disuguaglianza e del surriscaldamento globale, ispirate

direttamente da uno degli autori presi in considerazione per la stesura del lavoro, precisamente Andrew Sayer, autore del libro “Why we can’t afford the rich”. Tali possibili soluzioni prevedono principalmente politiche di redistribuzione della ricchezza dall’alto al basso e politiche di tassazione sulle attività maggiormente inquinanti, oltre a politiche che ripropongano lo Stato come attore forte e centrale capace di regolarizzare la finanza piuttosto che farsi controllare dai suoi principali attori.

Le conclusioni si aprono, poi, con la ricostruzione sintetica del percorso intrapreso nell’elaborato per poi infine dare un giudizio interamente soggettivo alla questione.

Introduction

I often find myself discussing the current world order and its contradictions with several people from different backgrounds. I unfortunately noticed that when I pronounce the word "neoliberal", with reference to the ideology that has been influencing most of the economic policies over the past 40 years, everyone, except students of politics in some cases, asked me what does "neo-liberalism" means, adding that they have never heard of the word before.

It is curious that most people don't know that the current economic and political system we live in, has been created by an historical process dominated by neoliberal ideologies and not an inexorable law of Nature. This is the reason why the first part of this dissertation is about the effort of giving the most complete definition of "neo-liberalism" and its implications in the economic, political and social context.

This long excursus is necessary to the main objective of the thesis, that is to criticise neo-liberalism by showing that it has become unsustainable for most of us and the Earth. The problem that today's society is facing, in fact, is that the economical doctrines that have been implemented around the world for 40 years with the support of international institutions, such as the World Bank and the International Monetary Fund, have been idealised far too much and they don't take into account changes in circumstances and contexts.

What we are experiencing today is that this oversimplified views of how economic works – the model of the free market that adjusts itself without any action from the State - is already destroying few of the benefits of those at the bottom of our society to the advantage of the few better-off. This standard model, in the long run, has become unsustainable both for the sacrifices imposed to the large number of people, and for the effects on the environment.

Fortunately, this year has brought some reconsiderations about this economic model and its negative side effects on distribution of wealth and general sustainability. Neo-liberalism has always been criticized, but the "good news" is that this time the re-examination comes from the IMF, an Institutions created under a set of ideas influenced by neoliberal thought and committed to spread and shape the neoliberal conditions imposed on the developing countries receiving credit. On June 2016, in fact, an academic article published on the IMF website stated: "*Instead of delivering growth,*

some neoliberal policies have increased inequality, in turn jeopardizing durable expansion"(Ostry, Loungani, Furceri 2016).

The reconsideration by the IMF expressed in the article starts by analyzing two fundamental planks of the neoliberal agenda: the so called "capital account liberalization", which is the removal of the restriction on the movement of capital across the countries; and the austerity policies aimed to reduce the fiscal deficit and the debt level of a Nation. Without any doubt, these policies have reached their main goal, especially in terms of expansion of the global trade, consequently reducing the level of abject poverty[1]; transfer of technology and know-how to developing countries thanks to the foreign direct investments; and last but not least, the efficiency of the provision of services thanks to privatizing operations. However, it has been recently recognised that these policies had led to an increase in inequality not only among different countries, but for just few countries which benefitted the increased level of economic expansion; but also within western countries, especially after the 2008 financial crisis, and especially in Europe where most of the hit countries are trying to deal with a strong dose of austerity, a fundamental point of the neoliberal agenda. Therefore, in the article it is underlined that *"increased inequality in turn hurts the level and sustainability of growth"(Ostry, Loungani, Furceri 2016).*

The reconsideration of the IMF is telling us that the neoliberal agenda has been reaching its main purpose, that is the "economic growth", but from now on the implemented policies should be re-thought in order to consider their distributional effects and the consequent sustainability for the world.

In order to understand why the IMF itself came to make such a statement, we need to track the clearest definition possible of "neo-liberalism" and what its meaning implies in an economic, political and social context. Given the fact that a brief and concise description is not possible, we need to recreate a timeline of the neoliberal' spread thought and understand its historical background through which it has developed.

[1] "abject poverty" in this context carries the meaning of "extreme poverty" given by the United Nations: "a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to services". United Nations, "Report of the World Summit for Social Development", March 6-12, 1995.

Chapter 1: About Neo-liberalism

1.1 Definition

The "Dictionary of the Social Sciences" published by Oxford University Press in 2002 starts its definition of neo-liberalism with *"A political label with multiple meanings, […]"*. Through these few words, we can understand that neoliberalism is not a concept clearly definable, due to its multiple aspects and characteristics, which are present in different contexts, from the economic one, to the social and political one.

A further implication that affects the attempt to give a transparent definition is that the adjective "neoliberal" is often used with a negative connotation, pointing out the spread of global capitalism –a direct consequence of the implementation of policies defined as neoliberal- as one of the major causes of the financial crisis, the demolition of the welfare state and the consumerism that grip our everyday life. As a matter of fact, it is rare to hear this term in politicians' speeches, even if their campaigns or political trends are clearly "neoliberal". However, this is utterly misleading, since the fact that a definition should be impartial and everyone should understand "neoliberalism" as an economic and political trend such as communism or socialism, and judging later according to his/her ideas and believes whether it is a negative or positive thought.

Nevertheless, an impartial definition can be given by simply analyzing the words that compound the term: neo-liberalism seems, in fact, to suggest a revival of "liberalism" and somehow connected to it; actually, the Oxford English Dictionary, referring to the adjective "neoliberal", writes: "*Relating to a modified form of liberalism tending to favour free-market capitalism.*" Given this definition, it is important to underline the fact that liberalism as a political theory finds its most important value in the idea of democracy, which is far from the ideal form of government that neoliberals ought to seek. As a matter of fact, it is fundamental to make the distinction between liberalism per-se and economic liberalism, the latter indicating the aspect on which neo-liberalism focus on. By economic liberalism, in fact, it is meant the idea that the State should intervene in economy as less as possible and leave to the individual the participation in free and open self-regulating markets; this model, introduced by Adam Smith in his world-famous book "The wealth of Nations", is also called "lassez-faire", for the non intervention of the State in the economy and the power of the market to regulate itself,

thanks to price information: all key aspects of neoliberal ideology that will be analyzed later.

This is the clearest concise definition possible, but to deepen our knowledge about the matter, it becomes now necessary to track down the historical development and background of this political and economic doctrine.

1.2 Historical background and development

The only thing that one can assert with no doubts is that it is not possible to date precisely the birth or creation of neo-liberalism, yet its fundamental roots can be traced back to the classical liberalism favoured by Adam Smith, and his analysis of the relationship between men and society that he uses to shape his economic theories. In fact, in his book "The wealth of nation", he stated his main idea which is that the free exchanges taking place in the market are transactions from which both parties take benefits, since nobody would voluntarily engage in an exchange from which they would emerge worse-off. However, this "laissez-faire" model had to face the reality and deal with its disastrous consequence: in fact, the 1929 market crash and the subsequent Great Depression are said to be the direct products of a free-market created disaster. To face the world-wide recession of the next years, a new economic approach was needed, one that saw the necessity of governments to intervene in the economy to redistribute wealth and regulate corporations, and Adam Smith's theories and ideas gradually lost its significance.

As a matter of fact, the theories by another British economist, John Maynard Keynes, seemed to be more suitable in order to come out from the economic crisis. According to him, the state intervention was necessary to regulate economic cycles, and in fact, he proposed a kind of mixed and regulated economy, where compromises between public and private sphere were dominant. His ideas inspired the "New Deal"[2] policies, which had helped the US to come out from the big recession thanks to the intervention of State in providing public works programs in order to achieve full employment rates, and a

[2] With "New Deal" it is meant the broad range of economic and social reforms promulgated by the US president Franklin Delano Roosevelt between 1933 and 1937 to recover the country from the recession caused by the '29 market crash.

decent welfare system for its citizens. The positive results in the United States of Keynesianism made this economic approach to become dominant in the period between 1945 and 1970, for re-establishing an equilibrium around the world after the disaster of the second world war. In fact, when Europe was rebuilt after the war, the Western powers agreed on the fact that market economies needed to guarantee enough basic dignity to citizens so that they would have been prevented to support again an extremist ideology, such as Nazism or Communism, that would have led, once again, to another global war. As a result, it was this belief that led to important results in the social context such as the welfare state, the public health care, or form of worker's protections. Furthermore, a similar mood –called "developmentalism"- took place in the developing world, especially in Latin America, and, as a result, the division between First and Third world became, actually, less wide.

David Harvey, a sociologist and a political analyst, stated in his book "A brief history of neoliberalism" that these policies resulted, in fact, quite successful: *"[…] redistributive politics, controls over the free mobility of capital, expanded public expenditures and welfare state-building, active state interventions in the economy, and some degree of planning of development went hand in hand with relatively high rates of growth. The business cycle was successfully controlled through the application of Keynesian fiscal and monetary policies."*[3]

It was exactly this system of compromises between the State and the private sector that the neoliberal counter revolution, headed by the theories of Milton Friedman, would try to dismantle with the desire to build a reengineered model society. Milton Friedman was one of the intellectual leader of the so called "Chicago's school", a school of thought born in the University of Chicago's Economic Department during the 1950s, which became the headquarter of the neoliberal theories. The focus of the Chicago teachings was on the belief in the free market as a perfect scientific system, in which individuals, acting on their own self-interested desires, create the maximum benefits for all. The forces that drives the free market, supply and demand are seen in a perfect equilibrium, which is able to adjust itself with no need of State intervention, the latter considered responsible of the economic distortions that can actually occur. The market, in fact, left to its own devices, would create just the right number of products at

[3] David Harvey, "A brief history of neoliberalism", Oxford university press, 2005, 11

precisely the right prices, produced by workers at just the right wages to buy those products. Milton Friedman expresses his point of view in his neoliberal "manifesto" – Capitalism and Freedom- where he summarizes his opinion about the Great Depression and the role of the State in the economy in a few lines: *"the Great Depression, like most other periods of severe unemployment, was produced by government mismanagement rather than by any inherent instability of the private economy. […] what we urgently need, for both economic stability and growth, is a reduction of government intervention not an increase.*[4]*"*

This is the essential idea of the neoliberal doctrine and it will be examined in depth in the next chapter.

However, the success of Keynesianism didn't allow these ideas to be put in practice, and they remained pure theories until the development of the movements in Latin American which put under real threat the corporate interests of American and European corporations[5]. Friedman's vision, in fact, coincided accurately with the interests of large multinationals, which by nature seek for wide new deregulated markets to make profit, and he finally has the opportunity to put in practice what so far was just a matter of discussion between economists, when the prosperity of Latin America became actually evident and the developmentalist governments were pulled into the binary logic of the Cold War, asserting that those policies were just the first step to a form of totalitarian communism and it had to be eradicated as soon as possible.

As the logic of the Cold War suggested, the US felt the moral duty to fight the rise of communism in every country in order to defend their corporate interests, and Chile was chosen as the country in which Milton Friedman would finally have the possibility to experiment his theories and see if they could actually work to eradicate developmentalism in those countries where it was deeply rooted.

It all began in 1956, when the so called "Chile project" was officially launched; many Chilean students went to the University of Chicago, at the expense of US taxpayers and private foundations, to study neoliberal theories and with the aim to help their government in reforming the economy once came back home. They began to be called

[4] Milton Friedman, "Capitalism and Freedom", University of Chicago press, 1962, 38-39

[5] The policies adopted by most Latin American states were implemented under the model of "import substitution" in order to make those state independent from import. These policies included the creation of new sectors and industries, fixed price of food, nationalization of key industries and banks, and high barriers to entry for foreign products.

“los Chicago boys” and they incarnated the model of the intellectual imperialism made by the United States to influence a country with its ideologies in order to support their private interests. However, the Chicago boys were not being taken into account as much as expected, particularly because in 1970 Chilean elections, the victory of the socialist Salvador Allende meant that the main sectors of the Chilean economy, that so far were controlled by foreign companies, would shift into the government hands. The “Chile project” resulted to be a complete failure, yet the neo-elected US president Richard Nixon decided to save the situation by giving Friedman the real chance to prove that his economic model was more than a theory: in 1973, a coup d’état orchestrated by CIA put in charge of Chile’s government the dictator Augusto Pinochet, who began immediately to follow to the letter the Chicago rules. However, the actual results were a disaster: in 1974, just a year after the implementation of Friedman prescribed neoliberal recipe, inflation reached 375%, the cost of primary goods, such as bread, went higher and higher, and, as a consequence of the free trade and cheap import, Chileans were losing their job and local businesses were closing because unable to compete. Nevertheless, Pinochet continued to implement such aggressive policies up until 1982 when Chile’s economy finally crash with a debt of $14 billion and unemployment at 30%, ten times higher than it was under Allende[6].

However, in the mainstream economic literature, Chile’s dictatorship is often referred to as “the Chilean miracle”, this is because once the economy had stabilized after the crash, it began to grow rapidly, yet 45% of the population had fallen below the poverty line and the richest 10% of Chileans had seen their incomes increase by 83%[7]: the neoliberal final goal of the economic growth had finally been reached, even if all the profits were unequally distributed.

As a result, after the “success” of the first neoliberal experiment, the two major western powers, US and Britain, decided to adopt the neoliberal strategy in order to leave behind the troubled situation of the 1970s[8].

Along with Milton Friedman, the other big neoliberal intellectual that influenced most of the processes of policy-making of the two countries, was Friedrich von Hayek. Both

[6] Naomi Klein, “The Shock Doctrine: the rise of disaster capitalism”, Picador, 2007, 104

[7] Ibid., 105

[8] In 1971, the US government decided to abandon the Gold Standard for a fluctuating exchange rate system;
in 1973 and 1979, the oil shocks caused a high increase in oil prices

were among the members of the Mont Pelerin Society, a society first created in 1947 to discuss liberal theories, which ideas became soon used by its members to counsel the neoliberal-wing governments:

"The group's member depicted themselves as "liberals" because of their fundamental commitment to ideals of personal freedom. The neoliberal label signalled their adherence to those free market principles of neoclassical economics that had emerged in the second half of nineteenth century […]."[9].

In fact, after having gained academic respectability with the Nobel Prize in economics assigned to Hayek in 1974, and Friedman in 1976, the neoliberal theory consolidation occurred in the United States and in Britain in 1979. In that year Margaret Thatcher was elected in Britain with the important task to cure the stagflation that affected Britain during 1970s. She affirmed that Keynesianism had to be abandoned and that monetarists 'supply-side' solutions were to be fundamental to her final aim. Her reforms were, in fact, shaped on a neoliberal path and they included, among others, mass privatization of public companies and the reduction of taxes to encourage entrepreneurial initiative.[10]

While Margaret Thatcher was putting into practice neoliberal ideas in Europe; the US were facing the 1979 "Volcker Shock". The decision made by the chairman of the Federal Reserve, Paul Volcker, was the raise of interest rates up to 21% in order to fight the national stagflation and consequently abandoning the idea of the "full-employment policies". This manoeuvre paved the way to the rising of Wall Street, to the detriment of the industrial world that had been central for US economy until then and it was the first step through a huge wave of neo-liberalization run by the new president Ronald Reagan elected in 1980. He agreed with Volcker's position in supporting the monetarist approach to overcome the crisis and he made the reforms needed to complete the process, by deregulating almost any economic sector, making cuts on taxes and attacking trade union and professional power. Even if in the US this shock caused several bankruptcies and tripled the number of people who couldn't pay back the mortgages, the worst scenario revealed itself outside the US, in particular in developing countries, which had an already huge debt for the modernizing policies that were being carried out. In fact, the Volcker Shock gave birth to what we know as the "debt crisis"

[9] Harvey, "A brief history of neoliberalism", 20
[10] Ibid., 23

of the 1980s: high interest rates meant indeed higher interest payments on foreign debt and, often, the only way to pay back these interests was taking on more loans, creating a vicious circle that in many cases ended up with insolvency declared by the States. It was the time to spread the neoliberal doctrine worldwide and in a way that affected our society even today.

Quoting a statement by Milton Friedman: *"Only a crisis –actual or perceived- produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes politically inevitable"*[11], it can be easily understood that it finally came the right time for Friedman and his followers to impose the neoliberal doctrine worldwide using governments that would take more of their advice. If the mid-eighties were seen as catastrophic by the developing countries, the Chicago School refers to that period as an overwhelming success for their ideology.

The crisis was created by the volatile and deregulated global economy that had been developing since the 1979 Volcker Shock[12], giving finance great power. This situation was allowing large sum of money to travel all around the globe at a great speed; so the speculators could bet on the value of any goods and also on the value of currencies. In this way, the system became more and more unstable, even because the free-trade model pushed poor countries to relate on export of raw materials, which prices were subjected to sudden drop and consequently put the economy of a country into depression, worsened by those speculators who bet against its currency in order to make profits. The recipe for an economic disaster was completed with interest rates that became higher and higher.

It is in these hard times in which the IMF and the World Bank acquired a fundamental role in shaping today's society, countries were experiencing the spiralling crisis in the eighties, and they had nowhere to turn but the IMF and World Bank.

Many of the Chicago boys were occupying the top positions of the two institutions, and the saw the crisis as a unique opportunity to secure a new free-market frontier, just as their master Milton Friedman stated, so this logic can actually be defined as *"crisis*

[11] Friedman, Preface, "Capitalism and Freedom", ix

[12] The decision made by the Federal Reserve to raise the interest rates.

opportunism"[13].

The IMF and the World Bank, along with the United Nations, were created after the Second World War with the explicit aim of avoiding the causes that had allowed the war to burst. The new world order was planned in 1944 in Bretton Woods, and the IMF and the World Bank were designed to master the new economic architecture. They were financed by the contributions of their initial forty-three member countries, and their goal was to prevent future economic shocks and crashes like the ones that had destabilized Weimar Germany[14]. The World Bank would make long-term investments in development to help countries to eradicate poverty, while the IMF would act as a global shock absorber, promoting economic policies that reduced financial speculation and market volatility. When a country was about to fall into crisis, the IMF would intervene with stabilizing grants and loans, preventing crisis before they occurred. Of course, the action of the two institutions were coordinated. At the beginning it seemed a way to control the market and avoid dangerous fluctuations, in fact, Milton Friedman considered these institution as the typical government interference in economy that didn't allow the market to regulate itself, but he soon had to change his mind: firstly, because the power of the two institutions were based on the size of each country's economy, giving the United States an effective veto over all major decisions, with Europe and Japan coming immediately after. As a matter of fact, when Reagan and Thatcher came to power in the eighties, their neoliberal inspired administration were able to control the two institutions in their own ends, and turning them into the primary vehicles for the advancement of corporatism.

Secondly, as said before, the top positions of the two institutions were mainly occupied by members of the Chicago School, and this colonization became official in 1989 when a British economist, John Williamson, revealed what he called "the Washington Consensus". It was a list of economic policies considered essential to economic wealth and growth and that would represent the core of neo-liberalism in action. In fact, among the long list of policies, there were claims such as: "state enterprise should be

[13] Klein, "The shock doctrine", 203

[14] The huge war reparations imposed on Weimar Germany after WWI, and the inability to pay them back, were the main cause that allowed Adolf Hitler to take power and consequently start the Second World War.

privatized" and "barriers impeding the entry of foreign firms should be abolished"[15], statements that summarize the main neoliberal features, such as privatization, deregulation, and cuts to government spending policies.

These policies became to be considered as fundamental for the developing countries, especially the ones in Latin America, and even if the World Bank and the IMF had always made some recommendation when they handed out loans, they began to demand the free-market policies as mandatory if the country wanted to benefit the loan; and, of course, the developing countries usually accepted this conditions due to the deep crisis they were facing. This "policies recommendation" soon became known as "structural adjustment". The first structural adjustment program was then launched in 1983, and for the next two decades, every country that came to ask for a major loan was informed that it had to transform its economy as a whole. Even if the IMF and the World Bank had always claimed that their final goal was worldwide economic stabilization and crisis prevention, and off the record it soon became clear that the international debt crisis was being used to advance the Chicago School agenda. An interesting point of view about the structural adjustment of the time comes from Dani Rodrik, an American economist who worked with the World Bank, who described the structural adjustment programs as a successful marketing product; in fact, he said that: *"Structural adjustment was sold as the process that countries needed to undergo in order to save their economies from the crisis."*[16] As a matter of fact, the developing countries desperately needed aid in order to stabilize their currencies, and when privatization and free-trade policies are packaged together with a financial bailout, countries have little choice but to accept the whole package. In this way, the US assured themselves the supremacy in Latin America and Africa, with no worries about the non-sustainability of the programs. Privatization and free trade, in fact, have nothing to do with ending a crisis, but it is a indirect way to corporations and multinationals to expand their profits, by buying at really low price a key company or selling off their product thanks to the abolition of export tariffs, damaging the domestic market. It become now relevant a later admission made by Davison Budhoo, an IMF economist who took part in structuring adjustment programs in Latin America and Africa throughout the eighties, that is: *"everything we did from*

[15] Klein, "The shock doctrine", 204
[16] Ibid., 205-206

1983 onward was based on our new sense of mission to have south "privatized" or die; towards this end we ignominiously created economic bedlam in Latin America and Africa in 1983-88"[17]

As the 2016 academic article mentioned in the introduction, once again a member of the IMF admits that the neoliberal policies are not sustainable and that they created more economic chaos than stability. With the excuse of exporting democracy and a "capitalist" lifestyle in order to enrich American and European corporations, the IMF and the World Bank created with no doubts an enormous economic growth, but it has been created at the expenses of the most, with growing of income gaps and social tensions. Just to make an example, in Argentina, where in 1970 the richest 10% of the population earned 12 times as much as the poorest, the rich were by 2002 earning 43 times as much.[18] As a matter of fact, this stratification of wealth has brought to many social protests and, as a consequence, in the last decade, Latin American Countries are taking a deep support of those "pink" governmenst that are trying to be lesser and lesser dependent on the IMF loans and its structural adjustments, and are trying to restore their economy by brushing up on the type of mixed economy that characterized the New Deal policies throughout the thirties.

Nevertheless, if the IMF lost its success in Latin America, the most recent financial crisis of 2008, and the consequent euro-zone crisis, allowed the IMF to use the crisis, as in the eighties, to assure its neoliberal policies, this time by focusing not only on privatization or free-market oriented policies, but also on austerity ones, that is the cut on social spending in order to lower the public deficit and avoid insolvency. After eight years of such implemented policies, exponents of the IMF are telling the world again that this situation is no longer sustainable, since it has reached the extreme expansion of inequality of wealth distribution: the situation in January 2016 was that just the 1% of the richest have more wealth than the rest of the world.

[17] Klein, "The shock doctrine", 205
[18] Ibid., 562

1.3 Neoliberal main features

After having ensured ourselves of the historical path that this political economic doctrine has followed through the years, it is time to clarify and exhaustively explain which are those policies that have been implemented and labelled as "neoliberal". Usually, it can be identified a sort of "trinity" of neo-liberalism, that is its core features and represent the starting point, seen as the main goals to achieve, from which the actual policies derive: they are the existence of a free and deregulated market, privatization of public assets, and massive cut on social spending.

First of all, from the very first sentences by David Harvey: *"Neoliberalism is in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free market, and free trade […]"*[19], it can be understood that the core feature at the base of all the neoliberal agenda is the dogma of the free-market and trade. According to neoliberal think-tank, in fact, markets are claimed to be the optimal or default form of economic organization, and work best with the minimum of regulation, thanks to the supply and demand regulating each others.

What every economy aim to be is "efficient", and this means its ability to find the most efficient allocation of resources at a given time and space. This is valid both for the exchange of goods and services, and for financial capital.

The free exchange of goods and services was the main goal at the beginning. In fact, policies of extinction of import tariffs and any barrier to entry a domestic market were central in the international agreement "GATT" –general agreement on tariffs and trade- signed in Geneva in 1947, immediately after the end of the Second World War, in order to facilitate the restoration of those economies devastated by the War. Opening up the market to foreign competition meant the possibility to benefit of what economists call comparative advantage[20] in order to low costs and maximize and turn production as efficient as possible. This was a winning strategy just after the war, when domestic

[19] Harvey, "A brief history of neoliberalism", 2

[20] The comparative advantage is the situation in which a country, opened up its domestic market to foreign competition, can import goods at a lower price than producing them domestically, and so specialize its production on some other goods, which will be sold on a foreign market at a higher price than the domestic one, allowing companies to make more profit.

companies had to restart their production from zero and they could benefit of the low costs of import of raw materials and cover costs plus make profits with their exports. Yet, as it has been said before when talking about the debt crisis in Latin America, the effects of a deregulated free market have led to negative consequences for many, because it requires laying off workers, and it puts much pressure on the domestic and traditional retailers, which are often forced to shut down because unable to be competitive. In spite of these possible negative consequences, however, in neoliberals opinion, the deregulated free market is necessary to foster the situation of "perfect competition", the "perfect" model in which all the enterprises can be part of the game, produce economic growth, and the only information available for the transaction is the price. In fact, the only force that is supposed to drive all the decisions within the context of an open market context and gives it order is the information about price, and, as David Harvey suggests: *"spontaneous order is what happens when you leave people alone, when entrepreneurs see the desire of people and then provide for them. They respond to market signals, to prices. Prices tell them what's needed and how urgently and where."*[21] As a consequence, in a society where free market is the dominant model of the economy, and each individual can exchange freely with others, then if they can agree on prices, it is in their interest to do so. In order to strengthen the idea that the perfect competition model in a free market is a win-win situation, it is compared to monopolistic or oligopolistic systems. In fact, in the markets characterized by monopoly or oligopoly there happens to be information asymmetries and the consequent market failure, that is the situation in which one of the two parties involved in a transaction has more information than the other, and so the transaction results to be not balanced giving a high possibility for a market failure, that is the inability of individuals to make rational choices to achieve their own benefits, from an economic point of view; as a consequence, they don't have the possibility to provide themselves with the needed goods.

However, the final objective of the transaction remains to allocate resources efficiently, and, in fact, in a free-market exchange the resources have moved to those who value them the most and to where they give their holders maximum utility. At the end, both parties result better-off, achieving the more general and wide neoliberal goal of

[21] Harvey, "A brief history of neoliberalism", 21

economic growth.

Nevertheless, in the last forty years, another liberalization has become dominant, which is the one of the capital markets, the one that allowed the developing countries in the eighties on one hand to borrow money very easily to promote their growth, and to the other hand to accumulate debt because of the sudden rise of rate interests.

The aim that the liberalization of capital markets seeks is once again the economic efficiency: the financial openness is believed to allow the financial market to channel world savings to their most productive use all around the world. Rates of return on different possible investments are always shifting, so markets must be as 'open' as possible to allow traders to shift their investments as fast as possible to what are expected to be the most profitable returns. What is not considered in this case is the difference between the types of possible investments. In fact, the so called 'foreign direct investment' takes all the advantage from an open and deregulated financial market, because it allows, for instance, technology or human capital to move where they are more needed and contribute to growth in the area, not only in economic terms, but also in social ones. On the contrary, the kind of investment called, for example, "speculation" does not bring growth because it looks for the most profitable revenue in the short time, so the intrinsic risk of the investment is so high to the extent that it can cause frequent crashes and crisis, as the one happened in 2008. Furthermore, the short-term investment cycle has also significant distributional effects particularly in increasing inequality.

Furthermore, it is important to underline the role of the individual according to neoliberals. In a society driven by free market forces, the only individual who can survive is the one who uses his inner entrepreneurial capabilities to create its own well-being through personal free choices. This individual is often called the self-entrepreneur who assumes the responsibility to take risks and seizes the opportunity given by the market. As goods compete among them, also the individual has to compete for his own wealth. Given these statements, it can be assumed that unemployment or poverty are not a consequence of the extra deregulation of markets or massive privatization, rather it is the individual failure and his lack of entrepreneurial attitude: the social inequalities are seen not as a systemic problem, but as result of free choices and, so "morally acceptable". It seems that neoliberal think-thank washed their hands about the possible

negative consequences of their ideology by putting the responsibility entirely on the individual and his freedom of choice.

In this environment characterized by a self-regulating market, which just considers price as the only useful information, the role of the State become less and less relevant and it has to be reduced to a mere economic actor competing among others. The actions that traditionally were under the State competence, such as fixing prices, protection of workers through the legalization of trade and labour union, granting minimum wage, or assuring access to education, were seen as an obstacle to the purest free model of the market and its inner ability to self-regulate. In addition, in this context the individual can not express his freedom of choice.

To understand the level of participation in economy that the State is allowed to have from a neoliberal standpoint, the words by Milton Friedman can be used: "*The organization of economic activity through voluntary exchange presumes that we have provided, through government, for the maintenance of law and order to prevent coercion of one individual by another, the enforcement of contracts voluntarily entered into, the definition of the meaning of property rights, the interpretation and enforcement of such rights, and the provision of a monetary framework.*"[22] Basically, the State has just to implement the "rules of the game" in order to protect and secure the operating principle of the free market. These rules consist mainly in favouring and protecting private property and making reforms to limit protectionism, deregulate the market, open it up to trade and abolish fixed exchange rates, in order to become competitive both on a domestic and international context. From Friedman's claim, it can be deduced the second key feature of neoliberal agenda: privatization of assets.

The process of privatization is the most immediate and effective policy in order to curb the size of the State and it has been a very common procedure all around the world since the mid eighties, especially in Western Europe, where Margaret Thatcher during her second mandate as Prime Minister of the UK, began an aggressive process of privatization between 1984 and 1988 regarding the major state-owned companies, such as British Airways and British Telecom among others. The amount of the selling-off of state-owned assets in that period amounted to 20$ billion[23]. As said before, Margaret

[22] Friedman, "Capitalism and freedom", 27

[23] "Does privatization serve the public interest?", Harvard Business School, November-December 1991 issue.

Thatcher represents the symbol of the first neoliberal experiment in a western country, along with the US president Ronald Reagan. She was openly inspired by the liberal ideas of Friedrich von Hayek, who was of course a promoter of privatization. In fact, as he openly affirms using a title of one of his most famous book, the intervention of the State in the economy matters would inevitably lead to *"the road of serfdom"*[24]. Moreover, privatization was also one of *condicio sine qua non* for the IMF to grant loans to the developing countries through the structural adjustment plans.

There are several reasons why neoliberals defend this policy and they are all connected to the already mentioned core concept of economic efficiency.

Before listing the pros that neoliberals use to promote privatization, it is necessary to give the general definition in order to understand what they are talking about, and a concise definition may be "the transfer of a business, industry, or service from public to private ownership and control"[25].

Firstly, privatization is believed to reach the economic efficiency sought as the ultimate goal by neoliberals proponents. Privatizing public assets would put the object of privatization in a market perspective in which all the decisions taken would be profit driven, so that it becomes fundamental to cut shallow costs and avoid unprofitable wastes, achieving efficiency. From the mainstream economic standpoint, the fact to be profit driven, pushes the managerial attitude through a short-term view of the production plan in order to maximize profit. This allows investments to be directed towards improvements in infrastructures that would assure the best high-quality service to the community; plus, a short-term business plan would spur continuous innovation that not only benefits the company itself but also the surrounding environment. In addition, the standard of the service would be always headed to the best quality possible because a company owned by a private should be more careful to the customer satisfaction, so that he or she would choose the service provided by that company again in the future, allowing the company to keep its businesses, given the fact that a private company in a free market environment survives only by its ability to compete.

Secondly, the wave of privatization associated with the deregulation of the market, the

[24] "The road to serfdom" was first published in 1944, but became relevant and fundamental to any neoliberal government just from the seventies, when Friedrich von Hayek gained the Nobel prize for economics in 1974.

[25] Oxford online dictionary.

other neoliberal key feature, allows the market environment to be more competitive, so that it can reach the perfect competition framework in which the forces that drive the market balance on their own just by using price information.

Thirdly, at the beginning, privatization was used by government as a way to raise their revenues in order to reduce the costs associated to the public sector and consequently reduce taxes and balance their budgets. In fact, transferring the ownership of a company to a private implies a transaction of money from the private who buys the company directly to the State treasury. The flow of money can be later used to repay possible debts to international organizations, or they can be invested in other State owned activities that need more funds to operate correctly.

So far, it seems that privatization is an optimal way to accumulate money to redistribute or to be used in other activities, while the sold-off companies can rebirth in a highly efficient environment and provide high-quality services to the community. Nevertheless, the real consequences of the global wave of privatization were not being considered, or deliberately ignored, by neoliberals proponents. The spread of this neoliberal policy, in fact, had several negative consequences and it is one of the relative cause for the inequality distribution of wealth in the world and the consequent non-sustainability of the neoliberal system.

First of all, privatization is not always translated into economic efficiency. As a matter of fact, neoliberals stand for privatizing any kind of company without making any differences on the service they provide. In fact, those sectors that traditionally provide public goods, such as electricity or water, usually have high fixed costs[26], which represent one of the so called "barrier to entry competition", that is an obstacle for other companies to enter the market and create competition. When these companies are under the control of the State, they represent a "public monopoly" and it occurs when the state-owned enterprise is the only supplier. Since the fact that the State should be more careful about the welfare of the citizens rather than to maximize profit, the service provided is usually good and at a relative low final price, in order to maintain the electorate satisfied with its services and make sure to win the next election. A possible

[26] From an economic definition, the fixed costs are those costs that do not vary with an increase or a decrease in the amounts of goods or service sold and provided. They have to be paid no matter what the type of the activity and production are. For instance, installations for delivering water or electricity to houses represent a fixed cost.

transfer to a private owner would create a private monopoly, in which not always the focus is on the welfare of citizens, but in maximizing profits. This would mean higher delivery costs for the consumers, for the fact that without competition, a monopoly can usually freely decide the final price, with the consequence of charging excessively those worse-off that may not afford the service but have no choice but to use them, since we are talking about primary survival needs, such as water.

Secondly, the same happens with the public services traditionally provided by the State. A privatization of sectors such as healthcare or education would mean, in this case too, higher costs to obtain them and, once again, leaving the worst-off without the possibility to benefit from a high quality health service or education. In the long term, this is a cause of the stratification of the society, in which the richer who can afford better quality services can improve their position and social status; whereas the same possibilities are denied to the worse-off, simply because they can not afford the service.

Thirdly, the privatization of key companies that are vital for one's country life, because the government rely on its profitable revenues, deny those governments to get the money necessary to provide a decent welfare service to its citizens. As a consequence, those governments will be forced to ask for loans and be highly indebted. A clear example of the importance of a state-owned key company can be found in the already illustrated example of Chile's neoliberal experiment. What is usually not said about the so called "Chilean miracle"[27] is that the neoliberal policies implemented by the general Pinochet under the direct advice of Milton Friedman led to the crash of Chilean economy in 1982, when its debt became enormous, hyperinflation caused the collapse of wages and the unemployment rate raised up to 30%. The only thing that allowed Chilean economy to avoid a complete collapse was the fact that the main Chilean copper mine company, Codelco, had never been privatized by Pinochet. The company provided the 85% of Chile's export revenues, which meant that although the economic crash, Chile still had a constant source of funds on which could be built the recovery of the domestic economy.[28]

Last but not least, privatization means that the accountability to the public interest is transferred to managers, who usually do the interest of the shareholders and not the one

[27] "the chilean miracle" is explained in the chapter 1.1

[28] Klein, "the shock doctrine", 104.

of the citizenry. In fact, cutting costs, for instance, would mean better efficiency and more profit but it is usually translated into the elimination of labour force considered "unnecessary", with the consequence of raising the unemployment rate and the number of people getting poorer and poorer, increasing the gap between the rich and the poor. Taking as an example the two mandates of Margaret Thatcher in the UK, firstly focused on the mass privatization of UK companies, it emerges from data that unemployment had been drastically rising since 1979, reaching its peak in 1984 with 11.9% of population out of work[29]. However, there is no evidence in the rise of the unemployment rate as a *direct* consequence of privatization; unemployment has been caused by a mix of neoliberal policies implemented by Margaret Thatcher, among which it need to be mentioned the effort in dismantling the labour unions.

Privatization has been called as one of the cause of unequal distribution of wealth because it allows a strict minority, the richer, to take possession of "the means of production" and give them in concession to the workers, who are asked to use them in order to create the profits that, at the and, will get into the shareholder's hands, while the workers keep on getting the same level of wage. Data shows that in the UK, CEO pay has grown 127 time quicker than workmen pay over the last 30 years. In addition, the CEOs of the biggest four banks in the UK earned £453,000 in 1989, fifty times the average UK household revenue.[30] Once again, this has been possible not just due to privatization, but by a set of neoliberal inspired policies, such as the openness of the financial market, in which shareholders can transfer very easily and rapidly their profit to short-term investment in order to make even more profit.

Besides privatization, another key feature of neo-liberalism that helps to curb the size of the State is to constrain government spending. According to the academic article of the IMF mentioned in the introduction, these particular and specific policies can be made "through limits on the size of fiscal deficits and on the ability of governments to accumulate debt". This concept is strictly related to the one of "austerity", which will be the central argument of this dissertation in chapter 2, along with its consequences on the current economic world order and its un-sustainability. Austerity policies have been, in fact, central in the IMF program and in the Central Bank of Europe in order to fight the

[29] The data come from "ONS-Office for National Statistic", the governmental official source for statistics in the UK.

[30] Andrew Sayer. *"Why we can't afford the rich?"*, The Policy Press, Great Britain, 2016, 216-217.

2008 worldwide economic crisis and the 2009 European debt crisis. In this sense, before probing this particular economic attitude, it is necessary to understand, in economic terms, the basic meaning of "fiscal deficit" and "government debt" and their implications.

Fiscal deficit occurs when government's total spending exceed government revenues, without considering money from borrowing, during the given fiscal year. Fiscal deficit usually takes place due to a significant increase in capital expenditure, which is usually associated to the creation of assets that will benefit the country balance in the long term, such as factories or buildings. This is one of the main reason why Keynes' devotees claim that fiscal deficit is necessary to stimulate economy, especially in time of recession. The government overspending, in fact, is said to be the result of financing projects that will create jobs, and, as a consequence, stimulates demand for materials to build up assets; in addition, workers will be given money, which they can spend throughout the economy, stimulating economic growth. Yet, the neoliberal trend stands for a reduction of the fiscal deficit, and one of the reasons is that the government spending "steals" those spending that should occur in the private sector in order to achieve efficiency.

Even if neoliberal theorists have never expressed themselves clearly about the optimal amount of fiscal deficit, they have listed several practical policies in order to lower it. The three principal methods used by those government following a neoliberal agenda are a) borrowing money from various institutions; b) issuing bonds on the capital market or c) the printing of new currency.

Firstly, the government can borrow money either from internal sourcing, such as the Central Bank, or from external ones, such as international organization like the IMF, or even from foreign government. The problem with borrowings is the one occurred during the debt crisis of the eighties: the money, in fact, has to be returned with interests payment, which usually become higher through time. In this way, the State is forced to take more loans to repay earlier loans ending up in a vicious circle of debt. Secondly, issuing bonds allows the government to take the advantages provided by an open financial market and the possibility to raise money. The other side of the coin is that in order to do that, the government should obtain the trust from the individuals that are willing to buy the bonds; otherwise, the only way to counterbalance the risk for those

unstable government issued bonds, is to increase the interest rate in return, increasing even more the instability of the capital market and increasing the possibility of declaring insolvency because of high level of debt. Thirdly, printing new currency to finance the deficit causes an increase in money supply and, as a consequence, inflationary pressure on prices[31]. Other methods that can be used to finance the fiscal deficit such as raising taxes or cutting social spending. The first is uncommon among neoliberal supporters because raising taxes usually discourages the electorate to vote for the government in charge, preventing it to rule in the next term; on the contrary, the second is more famous among neoliberals because cutting social spending means fighting the welfare state, which is the main argument for the State intervention in the economy. Cutting social spending, in fact, would have negative effects on those people receiving pensions, provisions, and all the other people receiving some sort of welfare support. According to neoliberals, however, the free market model is able to provide those services to the needy without the necessity for the State to intervene.

So far, this was an explanation of the concept of fiscal deficit, not to confuse with the other key concept in our analysis of "national debt".

Debt is briefly described as the accumulation of previous deficit; in fact, in any manual of economics, it can be read that the substantial difference between deficit and debt is that the first one is a flow, whereas the second one is a stock. The role of the national debt of several nations has been fundamental in shaping the world order we are living today as a consequence of the 2008 financial crisis. Moreover, the importance of debt can be assumed also through the name that the Greek crisis has been given, which is the Greek *debt* crisis. Given the complex nature of the phenomenon and its interconnection with austerity policies, the explanation of what is a sovereign debt and its implication will be considered in chapter 2 before analyzing the specific case of Greece.

To sum up, we can assert so far that the main features of neo-liberalism are the greater freedom of the market, the deregulation of all types of markets (labour, education, health care, and so on) in order to establish a competitive environment, privatization of assets, and cut on social spending to reduce the financial deficit.

The implementation of the neoliberal agenda during the last 40 years has brought to the

[31] Inflation occurs when there is a loss of value of the currency with the subsequent increase of prices of goods and services. Inflation trend discourages investments and savings because of the uncertainty in the future, for the money I will use tomorrow are less valuable than the one I use today.

famous process of "globalization" in every field, from communications to labour one. It is important to understand the context and the consequences that neo-liberalism have shaped and organized in order to understand why it can no longer be the main economic path to follow for a sustainable world.

1.4 Consequences of neo-liberalism: globalization driven by capitalism

If the financial crisis that hit Wall Street in 2008 spread quickly overseas it is due to the process of globalization that has been managed by neoliberal supporters for the last 40 years; the implementation of neoliberal policies has, in fact, brought several changes in the geopolitical, social and economic context since 1980.

First of all, from a geopolitical standpoint, neo-liberalism has driven the process of globalization. Since the end of the Second World War, the new global order has, along with the technological innovations in the means of transportation, brought a large growth of the amount of international trade and the expansion of multinationals, which would be a dominant actor in the development of a globalized network of commerce[32]. Moreover, the second step of globalization is characterized by the development of the internet and other information technologies since 1980. These have reduced the actual distance between actors in the world; the globalization has, in fact, led us to think the space that separate the different parts of the world as a set of dynamic relations rather than simple geographical distance. In addition, one of the most common definitions of globalization is that it is a never-ending process which sees the extension, the intensification, and the acceleration of the relationships among subjects located in different areas of the world.

The central actors in this process remain the multinationals and their power to influence our choices and our lifestyles. The world we live in today is generally dominated by our preferences on consumption; you are not what you eat anymore, rather you are what you choose to buy[33]. This is what has brought corporations to reach an important role in politics. In fact, politicians usually make decisions in order to please corporations'

[32] The data about the growth in the international trade can be found in the WTO official website: https://www.wto.org

[33] "A man is what he eats" is a quotation from an essay titled *Concerning Spiritualism and Materialism* written by the German philosopher Ludwig Andreas Feuerbach in 1863.

interests. A clear example of this dynamic can be found in the structural adjustment programs promoted by the IMF: The request of opening the market and privatizing the main industries were usually to the benefits of the main western multinationals seeking new places to increase their profits. In Argentina, for instance, after the implementation of said structural adjustment programs in the early nineties, almost all state enterprises were sold to private companies such as Citibank, Bank of Boston, IBM, and Ford Motor. In many other countries in Latin America, such as Bolivia, or Chile, happened quite the same[34].

Even though the main purpose is to show that eventually neo-liberalism is not sustainable, it must be mentioned that the globalization processes have brought many positives results to our society. It is therefore important to underline the positive consequences in order to focus ourselves on what has gone wrong and why the negative side of the neoliberal agenda overcomes the positive one by a far mile.

Firstly, as mentioned in the IMF academic article, the global expansion of trade has reduced the abject poverty line on a global scale. According to the World Bank data, in fact, the poverty headcount ratio at $1.90 a day has fallen from 42.15% of the population in 1981 to 10.68% in 2013[35]. This happened mainly thanks to the spread of Foreign Direct Investment from industrialized countries into developing ones. This allowed a transfer of technology and know-how, allowing poorer countries to restructure and create new efficient industries, which led to economic growth. Innovation and technology are stimulated by the increased competition created through the liberalization of markets and they provide new methods to increase efficiency. Consequently, they guarantee a major economic output on a global scale. The spread of technology and know-how through FDI have become possible thanks to the financial openness and the financial market, where huge amounts of capital have the possibility to be transferred to the other side of the world in a few seconds. Secondly, as said before, privatization of some sectors can bring more efficiency bringing in turn a general improvement of the services provided. Thirdly, communications and transfers have become increasingly faster due to the advancements of the Internet and the reducing of costs associated to transport. All these benefits, however, have a huge cost in terms of social alienation and distribution of wealth.

[34] Klein, “the shock doctrine”, 198, 209.
[35] The data are available on the website of the World Bank at http://data.worldbank.org/

As a matter of fact, to analyse which effects neoliberalism have on a social context, it is necessary to explain the neoliberal view of the individual, and its role in the free-market context.

Having born as an ideology *per-se*, neoliberal major theorists, as true philosophers, have explored the ethical field of such an ideology, giving to the mere economic interactions rules a social and political nuance. It is not by chance, in fact, that both Milton Friedman and Friedrich Von Hayek speak about *freedom* in their works. The main idea is that a free market context is the one and only place in which a man can express his freedom of choice, given the fact that a perfect competition environment has no information asymmetries and the ultimate choice depends only on the final price. In addition, this resulted to be an argument to further defend the limited role of the State, as a limitation to individual freedom.

The subject of this environment, however, is the *"homo oeconomicus"*, as the French philosopher Michelle Foucault stated: *"In neo-liberalism-and it does not hide this; it proclaims it- there is also a theory of homo oeconomicus, but he is not at all a partner of exchange. Homo oeconomicus is an entrepreneur, an entrepreneur of himself."*[36] As a classic entrepreneur, the individual seen as a self-entrepreneur is supposed to take risks and be able to survive in the free market context, by making free choices according to price information in order to get the best quality of service at the minimum cost. From a neoliberal point of view, the virtuous person, in fact, is the one who is able to access the relevant markets and function as a competent actor in these ones. He or she is willing to accept the risks associated with participating in free markets, and to adapt to rapid changes arising from such participation, precisely as the role of the entrepreneur described in all the economy manuals. Such an individual attitude in a free market context dominated by competition, has several negative consequences on the society and on how we think about others. Firstly, hunger and poverty become morally acceptable, being seen as an inability of the self entrepreneur to take the right choices and to take benefits from the market conditions.

Secondly, neo-liberalism sees everything in "economic terms". For instance: workers are not seen just as humans, but as "factor of production", necessary or unnecessary to the final goal of making good profits in the company's pockets. Any individual should

[36] Michel Foucault, *Birth of biopolitics*, Palgrave Macmillan, 2010, 226.

try, from the get go, to be as skilful as possible to be "sold" at a respectable price in the job market. Phenomena of job shortages, common in a neoliberal system specially in periods of recession, are justified by politicians as "lack of skills" or "welfare dependency", rather than applying an effort to create new jobs. This context creates a sort of competitions among people, forgetting the values of solidarity and altruism, finally de-humanizing our nature. One will think exclusively about himself and how to get the most high-quality employment possible at the expenses of others. Furthermore, even the choice of university, or one personal schooling would be affected by the possible success in the job-market, forcing people to choose what is more profitable rather than following one personal interests or inclinations. Thirdly, according to the neoliberal view (that sees the market as the central organizing principle for political, economic, and social decision making), it can be deducted that everything can be treated as a commodity: it can be put a price not only on goods and services, but also on individuals or ideas, and they can eventually be "traded". As mentioned before with the example of the job market, where an individual literally "sells" himself and his skills in exchange of money. This "commodification of everything"[37], especially of services that should be provided by the State, such as health care or education, has several negative consequences in the stratification of society. The ones who cannot afford a high-level education, for instance, will be seen as subordinate and exploitable by the ones who can. Education, moreover, is central in shaping a society, and, as a matter of fact, neoliberal education has the task to shape the entrepreneurial attitude of life of the individuals. In fact, education is seen as a *"driver for economic growth, development, or improved competitiveness for nations under globalised market conditions"*[38]. Many countries nowadays state that their Curriculum has by main objective the parameters that every student must have to live in the society. These parameters usually include a neoliberal ideal society where students must be *" able to live safe, healthy, and fulfilling lives; responsible citizens who make a positive contribution to society"*[39] or they must be *"successful learners, confident individuals, responsible citizens, and effective*

[37] This quotation refers to the title of one of the chapter of "A brief history of neoliberalism" by David Harvey.
[38] Fiona Patrick, "Neoliberalism, the Knowledge Economy, and the Learner: Challenging the Inevitability of the Commodified Self as an Outcome of Education" ISRN Education, vol. 2013, Article ID 108705, 8 pages, 2013. doi:10.1155/2013/108705
[39] English National Curriculum

contributors".[40] These skills, which any individual should have if he or she wants to survive in the capitalist world, give essence to the neoliberal idea that education is no longer seen in a "Montessorian" way, rather it is a matter of shaping the individual as economically responsible and entrepreneurial, no matter what his real interests are. The learner, in practice, *"should also take responsibility for their learning throughout their educational career while showing an adaptable approach to job seeking and re-skilling in an employment market characterized by uncertainty and career instability"*[41]. In the neoliberal preferences, short-term contracts are more suitable in order to get the highest flexibility possible and the statement above underlines the responsibilities left to the individual rather than the State.

The last context to take into account (and the most important for our main analysis) is the economic one. The neoliberal policies implemented during the past 40 years have led to a phase of capitalism called "financial capitalism", where the capital market has become dominant over the real economy made of exchange of good and services. In the beginning, the capital market was a servant to the real economy. The capital market had the role of redistributing efficiently the world's savings where they were most needed and allowing economic growth around the world. Since the 1980, however, the capital market has become less and less regulated thanks to the neoliberal influences on politicians. In fact, its role has switched from allocating long-term investments in productive uses, to speculative and short-term investments seeking more profit without an effective increase of production. It is important to understand the role of finance today because it is strictly related to the argument of sovereign debts, and to the implementation of austerity policies in order to reduce deficit.

The accumulation of finance had a stop after the 1929 crash, since the fact that it was considered responsible for the occurred. Moreover, it became again a progressive expansion, especially thanks to the role of the governments of the main neoliberal influenced western countries: United States and Britain.

The first step of the recovery of financial accumulation can be detected in the 60s, when the strict regulations imposed on the American multinationals favoured the relocation of their profits in the London capital market, rather than in productive investments within

[40] Scottish Curriculum for Excellence

[41] Patrick, "Neoliberalism, the Knowledge Economy, and the Learner: Challenging the Inevitability of the Commodified Self as an Outcome of Education"

the corporation. This happened because, first of all, the policies implemented by the British government allowed London financial market to become the most suitable place to avoid the financial regulations that still were affecting most countries; secondly, the multinationals believed that the mere industrial profit were too weak to create new investments, so that they sought new sources of profit using the financial instrument. In order to reach their aim, in fact, multinationals entrusted their capital to the banks of London, which had the task to valuate it as debt capital.

The second step that allowed the accumulation of finance to expand as much as we know it today, is after the world recession that occurred during the years 1974-1976, which is usually considered by economists as the starting point of a structural crisis of capitalism. In fact, this is the period in which capitalism becomes dominated by the priority given to financial speculation rather than productive investments. The first oil shock happened in 1973 and it allowed a big influx of money in London caused by the rise in oil prices. This large amount of money needed to be enhanced and, from that time, it started the so called “recycling of petrodollars”. These operations mainly took form of loans to developing countries belonging to the “Third World”, and they hold fundamental consequences for the recovery of finance: first of all, the circulation of the accumulated capitals through loans allowed the recovery from the crisis of 1976 opening to the western countries hit by the crisis new spaces to exploit throughout exports and FDI; secondly it began the delicate relationship between debtor and creditor similar to the one that characterizes usury, which, therefore, caused the debt crisis of the 1980s. Between 1975 and 1979, loans were taken easily and trustfully on variable rates of interest. When the 1979 Volcker shock took place, rising the rates of interest up to 20%, those countries found themselves in a vicious cycle of debt, allowing the capital market to reach a dominant role in the negotiations. The attempts to restructure the debt of the Latin American countries were the first signs of an economic manoeuvre that would get a central role in the 2007-2008 financial crisis and the subsequent euro-zone crisis: the so called “securitization of debt”, that is the sale of bonds on capital markets. If this is what happened in the “Third World” countries, however, the accumulation of the public debt in the industrialized countries developed differently and its total amount has reached a major amount then the one of the developing countries. The neoliberal-inspired policies implemented by the US president Ronald Reagan during the 1980s that

were mainly about the deregulation of capital flows, that rise the interest rates, allowed Wall Street to attract capitals seeking for profits from all over the world. After the experiment of London and New York, the other countries members of OCSE followed their examples, also in financing the government balance sheets through borrowings. These decisions are at the base of the unequal distribution of wealth and the non-sustainability of the system. Briefly speaking, from the 1950s the United States and Britain saw a development of the so called "*pension funds*"[42], that were dependent on investments in treasury bonds, private obligations, and stocks. The neoliberal implemented policies of the 1979-80 of deregulation of capital flows, the rise of the interest rates, and the sold of the treasury bonds on the public capital market, corresponded to the moment in which these private pensions funds were desperately seeking profitable investments. The benefits of these investments were mainly allocated in the hands of the already rich. The following come into play of the so called "*mutual funds*"[43], allowed the CEOs to transform savings, obtained by the lowering of the real wages of workers, in capitals to invest in securities such as bonds, or stocks. The growth of these mutual funds have started a process of revenues increases from interest rates, or dividends. These sort of "capital revenues", then, were not used to expand the aggregate demand of consumption, rather they were re-inserted in the financial system creating riskier and riskier types of investment. To underline the importance and the dominance of finance today and its role on the crisis, data show that since the 1980 the sum of the financial capital has more than doubled the global GDP[44].

As the IMF academic article underlines, this financial openness has increased the economic instability and the frequency of crisis. In fact, the process of deregulation of capital flows have been usually followed by several financial crisis originated by the so called "*financial bubbles*[45]". What neoliberals forgot to think about, is that the financial environment can not have the same features of a free market, where an "invisible hand" is thought to adjust all the economic distortions. The capital market can not be self-

[42] Pension funds are pension systems with a compounding in the capital market. They usually represent the major investors in private companies.

[43] Mutual funds are usually funds made up by different and smaller savers and hold together by a financial institution specialized in financial investments.

[44] All the data and the information about the evolution of finance can be found in François Chesnais, "les dettes illégitimes", Editions Raisons d'agir, 2011.

[45] A financial bubble happened when the "financial" price of the asset taken in consideration diverges from its real value and the speculation on its future price from the investors cause a crash in the financial capital market.

regulating, given the fact that the decisions on investments are made by the individual and his inclination to take greater risks. The spread of globalization, at the end, has allowed to the financial crisis to affect the world wide economy with the possibility of disastrous consequences in countries different from the one where the crisis has originated. The crisis of the sovereign debt in Europe, of the European banks and of the euro itself has emerged within the 2008 global financial crisis that first exploded in Wall Street. The problem that the neoliberal think-tanks should face today is that the growth through indebtedness that characterized the capitalistic world since 1980 is no longer sustainable. It's implication with austerity policies, a main point in the neoliberal agenda, will be analyzed in the next chapter, whereas the implications and the consequences that the financial openness has had on the unequal distribution of wealth will be analyzed in chapter 3.

Chapter 2: Neo-liberalism and the Europe crisis

After having clarified what do we mean when we talk about "neo-liberalism", it is time to set the relationship among this, the debt crisis that is affecting Europe since 2009, the role that the 2008 global financial crisis had and the fostered solutions, such as austerity, that are dragging Europe in a double-dip recession[46]. This relationship is neither clear nor direct and it requires an analysis of the major factors that contributed to create the current events we are experiencing and how neoliberal thought actually affected the creation of such conditions.

As said in the abstract, the choice to analyze specifically the case of Greece derives from the fact that it represent the most recent and obvious instance of how a strong belief in a neoliberal ideal world is both the cause and the consequence of an economic disaster that is threatening the sustainable of our planet. Yet, before taking into account the case study of the Greek debt crisis, it is necessary to argument the claim of the IMF about the financial openness which states that: "*although growth benefits are uncertain, costs in term of increased economic volatility and crisis frequency seem more evident*"[47].

2.1 The role of the financial sector

It has been already mentioned at the end of the first chapter that one of the consequences of the put in practice of a neoliberal agenda has been the liberalization and the opening of the financial sector, mainly by the two most important political supporter of a neoliberal system[48], and since the fact that it plays a major role in the creation of the crisis and the contraction of huge government debt, and the subsequent unequal distribution of wealth that is endangering our economic and social system, it requires further explanation.

[46] Double-dip recession refers to a recession followed by a short recovery and then followed by another recession.

[47] http://www.imf.org/external/pubs/ft/fandd/2016/06/ostry.htm

[48] The reference is to Ronald Reagan and Margaret Thatcher, whose policies and their connection to neoliberalism have already been mentioned in the first chapter.

As premise, the 2008 financial crisis has not been just a consequence of the growth of the financial sector, rather its roots have to be discovered in the interplay between it and the real economy.

The first distinction that necessarily has to be made is that the traditional "capitalist economy" is not a direct consequence of neoliberal policies implemented around the world. Neo-liberalism had developed an "unfortunate" step forward in which the financial sector dominates and commands the real economy, rather than serving the productive sector. What is more, the failure of the financial sector has been a burden for ordinary people, worsening their conditions, whereas the rich have become paradoxically richer.

A capitalist economy, or real economy, in fact, is about the production and the final delivery of goods and services in the final market, but it requires also a financial sector to fulfil important and indispensable functions to achieve the most efficient allocation of resources of the economy by moving unused or underused assets to where they can be used in a more efficient manner. Among the most important functions traditionally associated to the financial sector, we can find providing credit to enterprises and families, being an intermediary between lenders and owners by taking deposits and providing loans, bonds, or other financial products. In theory, the sector should use the deposits of savers as a base for investing in economic development. Again, it has to facilitate different types of transactions, such as movements of goods, people, and capital across borders by buying and selling currencies, or helping the process of mergers and acquisitions of companies. Last but not least, the financial sector should manage the creation of money and how it enters the economy, so that it promotes the creation of wealth and meeting of social goals, by managing risk and providing insurance and try to reduce exposure to such risk[49]. By accomplishing these function, the financial sector should contribute to economic development in the role of a servant rather than master, but in the last 40 years these roles have been inverted. The financial institutions, in fact, in executing their function, expect to make a margin and they usually practise these functions as a means to some sort of private gain, including making money for shareholders. The *trait d'union* between the role of the financial sector and the debt crisis, is that the best way to maximize the margin for a financial

[49] Sayer, "Why we can't afford the rich", 182-183

institution is through interest and other debt charges, from which the sector draws a large source of income to create credit money. What is more, financial institutions buy and sell assets themselves using their own funds to make profits; such activities are usually called "investing" or indeed "speculating", and they are supposed to bring benefits in the economy and in the social context; on the contrary, they actually contribute to *extract* wealth, rather than *create* it[50]. As a matter of fact, it can be asserted, at the end, that the financial sector is no longer behaving as a facilitator of the real productive economy. To track back a short history of the process of "financialisation" of the economy and the involvement of neo-liberalism in it, we need first to talk about the post-war boom. At that time the capitalistic economy were aimed to the primary function of production: big enterprises invested in production and distribution with a long-term view rather than prioritising short-term gains as it is today. This kind of "productionist capitalism" needed a financial sector to allocate resources and investment efficiently but it had many restrictions and was controlled by the state. Bank credit, for instance, was regulated to keep interests rate down and avoid asset inflation. In addition, wages and salaries rose along with rise in productivity, so that everyone enjoyed the benefits of the economic development maintaining rising demand as workers' pay rose; this happened especially thanks to the trade unions that still had a strong influence on companies owners. Furthermore, at a governmental level the social democracy that were dominating the political scene ensured public investment and economic security for families. The 1944 Bretton Woods agreement helped to create and control this system, by giving to governments the domination over the movement of capital; at the international level, in fact, the movement of capital were rigidly restricted. Governments could now settle social contracts with both companies and workers regulating their respective shares, rights, and responsibilities. Everything changed in the late 1960s and 1970s, when the possibility to make huge profits in this type of productionist capitalism began to fall, in part because of the development of globalization.

The rise of new markets, in fact, especially in East Asia, made competition higher and the possibility to make profits lower. In addition, many European and North American

[50] The explanation of the difference between extraction and creation of wealth will be developed in chapter 3.

manufacturing plants shifted offshore to the industrializing countries, so that owners could take advantage of the cheap labour and avoid the strict grip of unions. Technological innovations, moreover, allowed to replace skilled manual workers with machineries and, as a consequence of the rising unemployment in the old industrialized countries, consumer demand slowed down and reduced even more the possibility of a profitable production. Yet, labour productivity, that is the amount of output for workers, continued to rise, fostering the so called "jobless growth".

The first step towards "financialisation" originated in the United States in 1971, because the Bretton Woods system caused an enormous and still growing trade deficit in the US balance sheet. President Nixon, under the pressure of the financial sector, unilaterally ended the Bretton Woods agreement and liberalised credit creation and the movement of capital; this was the key passage where the globalization of trade and production finally met the globalization of capital and the creation of credit money. Now "investors" path lied open to achieve the best returns possible across the world and avoid regulated labour or high taxation. On the other hand, governments were progressively losing their power in controlling the interest rates, credit creation, supporting real investment and full employment; whereas, the US and British, as host to the major centres of the capital markets, promoted the shift to a "rentier capitalism". It was not a coincidence that in those time the two countries were ruled respectively by presidents Ronald Reagan and Margaret Thatcher, the two major promoter of neoliberal policies. They were mainly committed to reduce and attack trade unions and weaken employment legislation, because they were firmly convinced that the high inflation of the time caused by the 1973 first oil shock[51] was to be attributed to the organized labour. Both governments, then, raised interest rates to make their currency strong, in a regime of floating exchange rates after the end of Bretton Woods agreement. This caused an even more weakening in the export industry because the prices of exports became higher relative to the ones of goods from other countries. All this kind of policies together ended up in a disastrous loss of jobs, especially in manufacturing and old industrial communities. If from a social point of view, it was a terrible situation, low inflation and high interest were a good news for the financial sector, favouring the profitability of financial assets during

[51] The first oil shock happened when the oil-producing countries decided to restrict oil supply, resulting in a rise in prices and a subsequent crisis, where inflation soared and profits declined.

the 1980s. Furthermore, following the neoliberal doctrine, Thatcher and Reagan hit the welfare system of their countries, by pushing up the cost of borrowing by the public sector. This moment represents the turning point in the creation of the system we are today: in fact, it happened a shift in power from workers to employers, from both to rentiers, and from the state to finance. By decreasing inflation, the balance of power went back to creditors, and the global flows of money increased exponentially, causing the first big debt crisis of the history[52] and giving to finance a dominant and fundamental role in the flows of capital in the effort to reduce governments debt that the same financial sector had created. The paradox and the inner predisposition to crisis of the financial sector began to shape the world. Later, another feature of a neoliberal path followed by politicians was the shift from a regulated labour market to a flexible and more deregulated one, that was thought to be a way reach more economic efficiency, a key target of neoliberal supporters. Yet, this meant mainly a slow increase in wages and salaries and the subsequent decrease in the growth of the aggregate demand for good and services, given the fact that they had less money to spend. Therefore, enterprises found themselves without enough profit obtained by real investments in production, and so they decided to shift their opportunities to make good returns towards the capital market. This decision made the profit rates of the financial institution more appealable and capital began to flow into the sector. Furthermore, the fact that from the financial sector one could easily extract huge amount of profit and the fact that the weak demand made not possible to re-invest this capital in productivity, the amount of money began to be put back in the financial circle, or to be invested in property and other assets, fostering the power of rentiers and the power of those instruments, such as the interest rates, that favoured the *extraction* of wealth, rather than its *creation*. To sum up, if the productive capitalism once needed a small and controlled financial sector in order to distribute resource efficiently and creating economic real growth and expansion, nowadays, the new financialised capitalism is not based anymore on long-term investments in the creation of goods and services, rather on speculation, investment in stocks, obligation, and all those activities that allowed to the already better-off to gain more profits at the expenses of low-wage workers. In a context in which the rich were becoming richer thanks to their profitable dividends on shares and capital shares;

[52] The reference is to the Latin America debt crisis of the 1980s.

whereas the poor were becoming poorer because of the cut on social spending eliminating welfare and their drop in wages and salaries, inequality and its first shadow of un-sustainability became to widened around the world. Data show, in fact, that in the 1960s and 1970s, the global economy grew at over 3% in per capita terms, whereas during the 1980s it grew just at 1.4%[53]. This environment allowed shareholders and their short-term profit seeking to become dominant on the scene. The final target of companies became now to gain as much as possible in order to distribute profit among shareholders and make them richer and richer. This possibility were made easier by a neoliberal agenda taken on by politics of major western countries. In fact, deregulation and massive cost cutting, which were usually translated in job cutting, made easier for managers to make profits for the shareholders. The focus on productivity and the quality of goods and service provided were already a distant memory. However, what most concern us, after this brief explanation on how the financial sector became to be relevant in the current economic system, is its relationship and interconnection with the contraction of huge debts by governments and how they became unsustainable, threatening the whole globalized world. At this point, it is necessary to point out that each country has endemic characteristics in the creation of its own debt, not every country, in fact, follow the same steps; yet, there is still some general characteristics that need to be clarified before exploring the specific case of Europe and Greece in particular.

As a matter of fact, it has to be underlined that a fundamental role in the process of accumulating unsustainable and unbearable sovereign debt has been played by the banks, the main subject of the financial sector. Banks have changed their role accordingly to the process that changed the role of the financial sector, and their involvement in the most recent crisis can be found also in the name that the Euro-zone crisis has undertaken, that is "Europe's banking crisis". One of the main reason because of the huge expansion of sovereign debt in many European countries has been, in fact, the necessity to bailout the banking system to avoid a complete collapse of the financial economy and the loss of too much money to the detriment of bondholders. Even if it seems a paradox, the policies of austerity imposed on the weakest countries and said to be "necessary to the restoration of economic prosperity of the country" hid the will to

[53] Sayer, "Why we can't afford the rich", 193.

save the interests of the few bondholders to the detriment of most of common people, already suffering because of the crisis. In order to methodically follow this path, it becomes necessary once again to explain in general terms how the role of banks have changed under a neoliberal inspired policies spectrum and their impact on the contraction of public –or sovereign- debts.

At the beginning, the role of the banks was just of "financial intermediary". An institution in which savers deposited their savings, which would then be used as "credit money" to lend to enterprises in order to make productive investments. The image that we still have today of the role of the banks is, in fact, the one of an institution that lend out our savings and create money on the divergence between the interests on deposit and the interests charged on loans. Yet, nowadays, the problem is that the banking system is lending out more money than the total amount of the deposits, believing that savers will not withdraw their money all at once. Thus, banks do not use existence money anymore, rather they create electronic money in the form of interest-bearing credit –or debt, from the point of view of the borrower-. As a matter of fact, banks do not wait for money to be deposited, and when one borrows, he is not borrowing existing money that the bank already owns. In this sense, the relationship between debtor and creditor has changed; the debtor, in fact, is not thankful anymore to the bank because of the lending money to invest in concrete production, it is the bank that is thankful to the debtor because he is allowing the bank to create money –which will be lend out again- and to earn profit through interest rates indeed.

The financial environment is marked by information asymmetries and lack of communication with the sectors of the "productive economy", so that the only instrument that one has to judge before his gamble is the risk. Riskier the type of speculation, higher the interest rates given in return, more attractive the bet. Seeking for high short-term profit, banks and private investors are more compliant to risky movements of capital, creating bubbles and increasing the possibility of a system's crash. As a matter of fact, commercial banks have become investment banks or financial banks, which play the role of gamblers, and in their turn use their fictitious capital by giving loans to gamble and speculate in order to make their own profit. Anyhow, even if the money are not used for productive investments, it is necessary that in the future there would be some real economic growth to provide a warranty, because the interest

charges make a sort of claim on the future, since the fact that lending at interest must be backed by increased production of goods and services to provide the continuity of the cycle lending-borrowing-repayment with interest. From a bank standpoint, in fact, the more the bank lends out, the higher its profit. T he problem is that the liberalization of capital market and the subsequently financial openness allow the creation of the fictitious capital to be at high speed and much faster than the growth of production, so that it results in a lack of control of capital flows, which was one of the cause of the current crisis. Nowadays, the amount of total debt, in fact, outdoes what the real economy can discharge[54].

The capitalistic system needs both production and consumption in order to survive, but the greedy arrogance to obtain huge profits has been the system's endemic cause, which has caused the crisis we are living now. The neoliberal policies implemented by Ronald Reagan and Margaret Thatcher mainly in the 1980s that reduced the purchasing power of workers and the greater financialisation of the economy, created the requirements for the evolution of an unsustainable model of growth. In order to maintain the aggregate demand relatively high –an essential feature for capitalism to work-, although the diminishing value of wages and salaries, it has been developed a model of growth based on indebtedness. From private to industrial form of debt to sustain respectively final consumption and profitable investments, to public debt, that is the debt incurred by the State to finance the deficit and sustain its spending. Usually, in fact, the government issues bond on the capital market, which become in their turn a form of interest-bearing debt and an instrument to ask the middle and lower class sacrifices in terms of tax payment to pay back the interest rates. The bond issued by governments, in fact, are seen as one of the safest way to make profit, precisely because the government can raise taxes to pay back the debt and award the creditors, which are usually private business or banks. The public debt per se, however, is not always negative as the neoliberal politicians want us to believe. If the State, for instance, runs into debt in order to invest in infrastructures, policies of full employment, or research and development, the advantages in the long run would surely overcome the burden and the sacrifice to fund the debt. The problem in the current situation is that the public debt of some States has become unbearable, because after the 2008 financial crisis, the major banks, which had

[54] Sayer, why we can't afford the rich, 72.

lent out far more their deposits, were labelled "*too big to fail*", and, as a consequence, they had to be bailed out by governments, which worsened their already high public debt to an unsustainable level. Along with this, the belief of the European politicians, clearly influenced by neoliberal thought, that the high public debt of certain countries represented the major negative cause of the crisis and the subsequent imposition of strict austerity policies on the already crisis affected citizens, produced a perfect receipt for a disaster. More of this with specific reference to the Euro-zone crisis and the severe austerity imposed on Greece in the next paragraph.

2.2 Inside the neoliberal agenda: about debt and austerity policies in the European context

Throughout history, there have been several examples of the failure of neo-liberalism, such as the debt crisis of the 1980s outlined in the first chapter, bringing out the specific example of Chile, presented as the most brilliant neoliberal experiment under the label of "Chilean miracle", but that although revealing itself as a failure eventually. Yet, it seemed not to worry the architects of the euro-zone, who are continually imposing aggressive policies of austerity and privatization of assets, as if the strong belief in an economic ideology resulted predominant on the practical examples and outcomes provided by 40 years of implementation of such policies. The reason of choosing the euro-zone crisis and especially the Greece debt crisis as a case of study has come out because they represent the most recent evolution of the neoliberal path followed by politicians and how they affected what they labelled under the will of rescuing countries from declaring insolvency in a negative way. As said before, the crisis started from the inner paradox of the current capitalistic system, in which the financial openness played a major role. All the context that has been created and that caused the system to crash has been a consequence of the dogmatic belief in the power of self-adjustment of free-market, and in the presumption that the financial sector could run on the same rules too, justifying its ever-increasing deregulation and a let-it-be attitude in order to accumulate credit and lend out money easily. However, what is more upsetting and alarming is that the plans to rescue the situation have been using the same policies that caused the crisis and therefore worsening the situation for the middle and low income people by

enriching the already rich, causing an inequality in the distribution of the world wealth that is no longer sustainable.

To start with, this paragraph will be about the euro-zone debt crisis and the austerity solutions thought as a win-win relief. Beside the general analysis of the financial sector and how it influenced the 2008 financial crisis, the euro-zone situation requires a further study, for the fact that it is included in a context dominated by a monetary union at fixed exchange rates, where the typical economic instrument used to adjust distortions cannot be used[55].

The third paragraph will be about the Greek case and how the austerity policies affected and worsened the already bad economic and social situation, and why this situation in the long-run could be devastating and unsustainable.

It has already been mentioned above that nowadays, in our globalized world, anything that leads to a recession in an important part of the world has negative effects and consequences on everyone. In fact, the 2008 financial crisis that started in the United States affected most of the global economy, but its worse effects happened in Europe, where it transformed itself into what has been called with different names: “euro crisis”, “Europe debt crisis”, or “European banking crisis”. This means that each factor contributed to the worsening conditions that have been affecting the euro-zone since 2010. This part of the world, in fact, is living a lasting economic depression characterized by a situation near-stagnation, with the rate of GDP per capita barely higher in 2015 than it was before the burst of the crisis in 2007[56]. In addition, whereas in the United States, for instance, the situation about unemployment rate is progressively improving, has decreased to 5%; in Europe the unemployment rate touched the peak of 10% in the 2010. What is even worse is that the lack of jobs is hitting mainly the youth, with an average of one out of two jobless people in the worst-hit crisis countries. It seems that history has not taught us anything about the failure of austerity policies, nor had a system based on currency union. The rigidity of the gold standard imposed within Bretton Woods agreement, in fact, failed in 1971, and after that no one wanted it to be restored. Europe instead decided to bound itself with the

[55] Economic crisis are usually fought with the instrument of the exchange rates, through which a State can evaluate or devaluate its currency in order to make more competitive its exports.

[56] Joseph E. Stiglitz, “The euro and its threat to the future of Europe”, Penguin Random House UK, 2016, 3.

same system. Thus, it is actually the euro that is largely impeding a significant recovery, along with the aggressive policies that are being imposed by the neoliberal fundamentalists. Nothing new given, the euro itself was a political project of cohesion and integration prompted by those who strongly believed in the market fundamentalism and its "*invisible hand*", and, in fact, when new institutions and policies are built on a basis of strong beliefs and ideologies, rather than on experience, the result is a complete disaster in which the future of the next generation is being put in jeopardy. The structure that constitutes the euro-zone, in fact, is to blame for the mediocre performance of the region, including the multiple crises. A single currency, in fact, needs strong institutions to work efficiently among the different cultural, economic, and social contexts that characterize the European countries. Given the fact that a single currency system results in a fixed exchange rate regime and a single interest rate among all the countries, the institutions should favour flexible conditions in which the different countries can succeed in adjusting their monetary policy accordingly to the main guidelines. The problem with euro is, in fact, that the global financial crisis revealed its weakest and most important point: the lack of automatic adjustment through exchange rates to respond to shocks that developed differently on every single country. Yet, what happened and what is happening is that the monetary policies –responsible of unemployment and social welfare- have not been left to the single countries, but they were rather centralized in the European Central Bank, a conglomeration of neoliberal supporters, which sustained policies aimed to limit the public spending and prevented the countries from reacting with enough flexibility to the crisis. In addition, what seems more contradictory is that the same "euro supporters" who blame the high-debt countries for the disastrous consequences of the crisis should be informed that a currency area is more suitable to crisis, and especially to debt crisis. So what they recognise as the "cause" of the crisis –the level of debt- is actually the "consequence" of their project. The problem itself is, again, the fact that the counties of the euro-zone cannot adjust their exchange rates against various shocks, and the economic costs of the crises are evident not only in the high unemployment rate, but also in the almost imperceptible growth for many years. The kind of crisis caused by a currency union happens because if for some reasons the exchange rate becomes too high, the import will exceed the export causing a trade deficit, which somehow needs to be financed

otherwise, usually by capital inflows. When such capital inflows take a form of debt rather than one of direct investment the problem is more evident; in fact, if the debt increases too much, the creditors may begin to distrust the ability of repayments by governments and eventually retire or stop the flow of money in the country, causing it to go into crisis. The sudden stop in capital inflows can occur because of the structure of the current financial system, especially its excessive openness, deregulation, and its short-sighted feature, which allow quick decisions to be made upon "feelings" on the future. When these feelings change quickly, in fact, a debt crisis has a high possibility to burst, as lenders refuse to give up on their debt as it has necessarily to be repaid. The country, unable to find someone willing to lend because of the feeling of distrust, is forced to default or to ask the IMF a rescue plan, accepting severe conditions. The problem of the financial and debt crisis is that the banks, as intermediaries between lenders and borrowers, can no longer lend out money because the lenders suddenly decide that they do not trust anymore the government of the country and they retire or stop the money inflow, to the extent that businesses and families whose consumption depends on borrowing have to make cuts on their spending. A government can find himself "suddenly" over-indebted firstly because the lenders –banks- should be aware of the risk within excessive loans but when the crisis bursts, they usually blame the borrowers and not themselves; furthermore, banks usually exploit internal political issues to lend out excessively: governments are easily persuaded to borrow a lot because the government in charge can benefit from the prosperity resulted from borrowing, while the burden of repayment will be a future government responsibility.

Secondly, a government can find itself over-indebted because, as said earlier, lenders get usually bailed out by the IMF, by the European Central Bank, or by governments. These bailouts, then, distort incentives and are really expensive: they represent just one of the many forms of subsidy to the financial sector, in particular the big banks.

Another point worth making about the euro causing crises is about the lenders-borrowers relationship. Debt crisis usually do not happen in countries that borrow in their own currency, because the possibility to print out as much money as needed can face the repayments required –even if this resolution can cause inflation-. The problem showed up in Europe is that countries and businesses actually borrow in their local currency but they do not control its printing issue, then increasing their default risk. As

a matter of fact, when a country does not have easy access to loans because of the distrust of the creditors, it can only address to their European partners, or get money through the European Central Bank, and when this actually happened, the latter, along with other European authorities, turned itself into a credit collection agency for the lenders nations, Germany above others. Consequently, this caused a switch in the balance of power; it has been transferred to the creditors particularly able to persuade the country at risk that default would be worse than accomplish creditors requests. The withholding of credit becomes, in fact, the power to persuade a country to leave its economic sovereignty in the hands of "strangers", that is exactly what is happening: the debtor countries are obliged to adopt policies not aimed to reduce unemployment and promote growth, but rather aimed to produce a surplus that will permit to repay what it is owed to creditors.

As a result, the problems of the structure of the European Community emerged even clearer in the policies pursued in the attempt to face the crisis, inside and outside the single countries. These were kind of the same policies pursued by the IMF during the 1980s and 1990s that led to "lost decades" in America Latina and Africa[57]. Whereas the IMF itself is beginning to question this kind of policies, Europe seems to embrace them more tightly than ever. The leaders of the euro-zone, mainly German politicians, who are in charge of the European institution are not, of course, blaming themselves, but they are rather pointing their finger at those countries most hit by the crisis, such as Greece, Portugal, or Ireland; and they are inflicting aggressive austerity policies to these countries claiming that the problem of the euro-zone crisis is mainly because these countries in recession or depression are not able to the reduce their level of debt, the latter being considered the main cause of the general stagnation of the euro-zone. The ambiguous economic programs aimed to save Europe, in fact, were designed by the so called "Troika", which is formed by the neoliberal triumvirate of the IMF, the European Central Bank, and the European Commission, and they function quite similarly to the Structural Adjustment Programs imposed by the IMF and the World Bank on the Latin American countries during the debt crisis of the 1980s. Money is, in fact, lent to the country in difficulties with strong conditions, which usually require giving up on large

[57] The reference is on the "Washington Consensus" neoliberal doctrine pursued by the IMF and the World Bank in the developing countries that caused the debt crisis. They are mentioned and explained in chapter 1.

components of economic sovereignty. Nothing new again, the conditions imposed on the countries dealing with a crisis were not just about the repayment of loans, but likewise they were decided in order to reach a conformity between the economic practices of the aforementioned countries and the will of the finance ministers of the euro-zone countries, mainly Germans. Even if the condition imposed have led to an economic contraction rather than recovery, the Troika program actually saved banks and restored financial markets, increasing the sovereign debt to an almost unsustainable level –which, moreover, has made paying back loans even more impossible and, at the same time, increased the possibility of declaring insolvency-; fostered inequality, and lowered income and the general quality of life for middle- and low-income citizens. The problems of these programs consisted not only in the macroeconomic level of austerity, but also in structural reforms.

First of all, like devotees to religion dogmas, the dominant powers in the euro-zone were devoted to the neoliberal dogma; they believed, in fact, that low level of deficit and debt would prevent crisis, and that the best way to recover an economy in crisis was austerity, which consists of a cut on social spending aiming at lowering the deficit. Everyone might at least once have heard this word giving it a negative meaning because of the association with "sacrifice" and "injustice"; yet, austerity has its own history and concrete implications on everyday life and on the macroeconomic level of a country that goes beyond this simplistic arguments.

A country that is facing a period of recession should focus its effort on full employment policies, such as keeping low exchange rates to favour exports; keeping low interest rates to favour productive investment and consumption; and using fiscal policy to increase spending or decreasing taxes. As it has already been explained, the condition of the single currency eliminates *ex-ante* the first and the second proposals, whereas the latter, that should represent the only solution, has been impeded by the convergence criteria imposed to countries willing to enter the euro-zone, so that in many places happened exactly the opposite: a cut in social spending and an increase in tax revenues –austerity-.

The convergence criteria required the deficit to be limited to 3% of GDP, yet almost all the countries exceeded at least once this figure after the 2008 crisis, so that austerity has

become the only solution to be implemented, with its consequence of weakening the total demand and, in general, the European economies.

The origin of the stubborn belief that austerity policies can lead to an economic restoration is called "the confidence theory" promoted by Herbert Hoover[58]. According to this theory, an economy with high unemployment rate could prosper again without increasing government spending and without the flexibility of a floating exchange rate. It simply needs to restore confidence and increase investments by cutting government deficits; then, in a perfect neoliberal view of economics, the markets would eventually self-adjust re-establishing full employment. This confidence theory has been experienced as much as failed throughout years. The same Hoover, trying to face the 1929 stock market crash using his theory, dragged the country in the Great Depression rather than making the economy recover and flourish again. In addition, the already mentioned examples of the intervention of the IMF in the developing countries, especially Latin America and Africa, underlined the negative outcome of the theory of austerity and, rather than re-establishing confidence in the markets, hurt it. Of course, it is not safe for a government to run high fiscal deficit and debt, but the convergence criteria resulted to be an approximate policy based on the over faith in an ideology that was mainstream at the time of the creation of the European Union. These criteria impeded a country to face the possible downturn of the economic cycles, and what is worse it deepened the recession. For instance, as the GDP of one's country may happen to go down because of a decrease in the amount of export, in this present case, its tax revenues went down too. The convergence criteria leave no interventions but to raise tax rates or to cut back expenditures, and both solutions would certainly lead to an even weaker economy. It has been said several time that austerity causes a deeper and longer recession. This is because austerity policies worsened the capital flight and caused the migration of labour from the poorer countries to the richer, simply for the reason that, as said before, investors become less confident to invest in unstable countries experiencing an economic recession; otherwise, they prefer investing in countries where the conditions are better and more favourable. The same happens for the market labour. The high unemployment rate causes an outmigration towards countries in which there are better opportunities, made possible also thanks to –or because of- the free capital

[58] 31st president of the United States of America from 4th march 1929 to 4th march 1933. He is said to be responsible of the transformation of the 1929 Wall Street crash during the Great Depression.

movement and the knocking down of customs and barriers, not only for goods and capitals but also for people. This “freedom” of movement is a strong pillar in the Europe creation project. However, the transfer of working force leaves in turn a greater debt burden per capita on those who do not leave. As a matter of fact, the cutbacks in public services associated with austerity and the lack of government investment in public infrastructure, education, or technology, make less attractive to invest and to live in the countries most hit by recession. What happened in Greece was even worse because the policies supported by the Troika led to a further capital flight out of the banking system of the country, literally depriving savers of their actual deposits. If this operation would not be enough, it is possible that the Troika could order a shutdown of the banks making the capital flight even worse and allowing money to flow from the country at risk to safer ones, such as Germany, for instance. This process would only increase the inequality within the euro-zone, whereas the convergence criteria were actually created to bring closer together the different countries. Quite ironically, considering that the Troika is made up by mainly financiers and German politicians, these policies result to be not that shocking or absurd. What is more surprising is that the Troika is so far convinced that these austerity policies would restore the economies, that if the results do not correspond to the expectations, more aggressive and strict austerity policies are ready to be pursued, creating an evident problem in the sustainability of the economy.

Defining austerity as policies aimed to cut social spending and increase taxes is reducing. The mechanisms hidden behind the planning of such policies require further analysis.

The basic design of the program is to set fiscal targets, reducing the primary deficit and trying to reach a primary surplus. This already caused a first problem: if the target is not met, in fact, the programs involve more doses of austerity.

In the first place, as it has already been said, if austerity leads to contraction, further austerity will lead with no doubts to a deeper depression of the economy, caused by ever-increasing tax reforms. Even if the IMF itself has warned about the dangers of high taxation, that is said to bring a discouragement to work and savings, it seems a *must-do* in the austerity package in order to increase revenues, and it is often accompanied to the process of privatization on a large scale. In the next paragraph I will provide concrete

examples of how high taxation policies can be actually implemented, taking Greece as the case study.

Secondly, cutting spending is the other key ingredient for a perfect austerity plan aimed to restore fiscal balance. The cuts that the Troika has imposed on the crisis countries, however, were bad-planned. The Troika, in fact, should have focused on cuts that would have had a small impact on GDP and on welfare. This is because low- and middle-income citizens are the ones most dependent on social programs and public expenditures like education, health care, social programs, and other welfare benefit, whereas the rich can easily take care of themselves by addressing their needs to the private sector to get satisfied. Intelligent cuts would have been, for instance, into the defence expenditures, given the fact that military conflicts inside Europe are rare and the role of NATO is dominant. What is more, in some countries there are forms of subsidies to the already well-off business owners or for fossil fuels as regarding the energy field. If the cut was applied to these contexts, not only the cuts would be intelligent, but also the society would be more equal and the environment sustainability would be very satisfying.

Thirdly, another context usually touched by austerity programs is the one of pensions. Cutting pensions, in fact, is another way to use the money to finance deficit and it affects the weakest part of the population. Yet, this process can be defined as a sort of "wage theft" because if retirees do not receive the proper pension, it happens to be as the employer did not pay the worker what is promised for his performance; the pension, in fact, is part of the contract. Quite ironically again, the contract between lenders (mainly Germany) and borrowers (crisis countries) must be respected at any cost, whereas the contract that includes pension guidelines can be easily sacrificed.

If defining austerity is quite simple, in order to support the idea that it is unsustainable, it is more important to focus on the effects, or possible effects that it has on one country's economy and stability. In general terms, it can be asserted that austerity is bad both in the short-run, because it leads to further unemployment –cutting social expenditures leads of course to job's shortage-, and in the long-run because it slows down the economic growth due to increased inequality. Fortunately, or unfortunately, depending on the point of view, the actual European system provides clear examples and explanations. The problem is that the burden of bad decisions made by politicians is

being borne by innocent citizens, mainly the ones from low- and middle-income class: retirees whose pensions have been used to save banks; high-skilled youth not able to find a job and sometimes forced to emigrate outside of their home-countries to not starve to death[59]. The actual policies of austerity imposed by Troika on the countries at risk have worsened the crisis, weakened that sense of unity, which Europe should be the best example of, and pointed out the flaws within its structure. In spite of these concrete consequences, the leaders are claiming success for their austerity program, by reporting just some positive and not significant examples. For instance, the case of Ireland is made to underline that the Troika's Economic Adjustment Program of 2010-2013 saved the country's financial sector and the government from an economic collapse. Yet, they forget to add that the Irish unemployment rate stalled in double digits for five years, causing a lot of suffering and lack of opportunities for Irish people[60].

Another example used as a successful outcome for austerity policies is the one of Portugal. The IMF bailed out the Portuguese government no longer able to repay the interest rates on loans because of the global financial crisis. Of course the government was asked for conditions, such as the reduction of the deficit from 10% of GDP in 2010 to 3% in 2013, which could only occur with austerity: the wages for public servants soared and the taxes peaked creating discontent among the population. Yet, the IMF claimed it as a victory because the lending rate for the government lowered and so the government could carry on borrowing with more comfort, even if normal people have never experienced real benefits and improvements in their quality of life; by 2015, in fact, GDP per capita was still down about 4.3% from before the crisis, whereas the unemployment rate was still at 12% at the beginning of 2016[61]. What appears clear from these examples is that the technocrats entrusted to put Europe on the recovery path were more interested in bond spreads[62], interest rates, and deficit rather than on real people and real suffering. Even if the programs of adjustment were sold as the first step to create the basis for long-term recovery, it can be said *ex post* that such programs were put together only to make sure that the debtors would pay the costs of adjustment, and creditors get repaid, fostering inequality. It is quite obvious, in fact, that Germany and

[59] The current youth unemployment rate in Europe is 30%. Data available in Stiglitz, "The euro and its threat to the future of Europe", 2016, 177.
[60] Stiglitz, "The euro and its threat to the future of Europe", 2016, 178.
[61] Ibid., 179.
[62] The spread indicates how much extra those in the crisis countries have to pay to borrow money

German banks, as the main creditor along with France, wanted to be paid back with interests, of course. The only possibility that a borrowing state has to pay back its loans is to run a surplus, while reducing the deficit. In this case, from an economic standpoint, surplus may be worse than deficit because it contributes to weaken an economy: when a government runs a surplus, it is taking away from the purchasing power of its citizens more than it is adding back through its spending[63]. It is quite ironic that Germany is asking the crisis countries to run a surplus when its same experience after the War World I was disastrous. In fact, it had to run a surplus in order to pay war reparations that caused hyper-inflation and depression, and everyone knows how it ended up. The fear of high debt, however, is not born by chance. It actually refers to some academic works developed by austerity supporters[64], who claimed that the slow growth is caused by high deficit and debt rather than the opposite: it is the stagnant growth that causes an increase in government indebtedness. As mentioned before, in fact, deficit and debt do not always assume a negative meaning: if a country borrows to make productive and concrete investments, in fact, increases its future potential and its ability to resist and counterbalance external shocks.

However, large doses of austerity continue to be imposed mainly and most aggressively on Greece, which seems to experience a never-ending recession. By reading the negative consequences that these specific policies are helping to spread, one could ask oneself the reason why they are repeatedly proposed and imposed, if it seems so obvious that they favour economic slowdown rather than growth. The argument to support the thesis has been given by examples of the so-called "*expansionary contractions*", which consist of economic growth occurred when the government contracted its social spending. Yet, the European technocrats seemed to miss the key points for the success of this theory, which were in total contrast with the economic characteristics of the euro-zone. The successful experiences of the expansionary contractions, in fact, were circumscribed in few countries with small economies based on flexible exchange rate. The contraction in government spending was actually combined with growth, yet it was thanks to the fact that the lack of demand caused by

[63] Stiglitz, "The euro and its threat to the future of Europe", 2016, 187.

[64] The reference is to Kenneth Rogoff and Carmen Reinhardt, two American economists who developed a theory stating a negative correlation between high debt-to-GDP ratios and growth, resulting in supporting austerity policies. The theory can be found in their academic article "Growth in a time of debt" published on American Economic Review in 2010.

the cutbacks was compensated by exports. The most significant example often reported is the one of Canada in the 1990s that took advantage of the economic expansion that its neighbour –the United States- was experiencing; in fact, Canada was able to sell its goods more conveniently to the United States thanks to the flexible exchange rates regime. As a matter of fact, during recession, it is important to consider whether or not one of your neighbour countries is having an economic boom in order to take advantage of it and therefore to restore your own economy. Of course, this could not be valid for Europe for the reasons mentioned throughout this chapter. Europe as a whole, in fact, was experiencing a recession and it represented the main trading partner of each of the countries most hit by the crisis. In addition, because of the monetary union, these countries could not lower their exchange rates to become more competitive in exports. On the contrary, the exchange rate of the euro with the rest of the world remained quite strong. For all these matters, austerity did not create expansionary contractions, rather it created its usual consequences: a slowdown that often led to economic depression.

Though, it is worth mentioning that the austerity programs promoted in Europe after the crisis usually come together with structural reforms. The Troika thought, in fact, that the only way to regain efficiency without using the instrument of exchange rate, was to lower wages and prices, and change the economic structure of one country, for instance, by mass privatization. What the Troika hoped for in designing these structural reforms, was that a decrease in wages would have led to lower prices of export goods and so an increment in the latter. The problem was that the increase in export was far less than expected and could not allow the hoped adjustment.

To conclude with, both austerity and the structural programs have failed to make the economy of the crisis countries prosper again. On the contrary, they have increased the level of social inequality and put in jeopardy the future of young generations. Unemployment, in fact, increases inequality both in a direct and indirect way: wages fall as much as welfare spending, on which common population mostly depend on, decrease. What is more, as the IMF finally recognized in the academic article mentioned at the beginning of this dissertation, inequality weakens and threatens economic growth, so that austerity policies seem not to be the solution anymore. Nevertheless, the Troika is still imposing these policies on Greece with still more disastrous outcomes. This will be the focus of the next paragraph.

2.3 The Greek debt crisis and the consequences of austerity: a case study

The case of Greece is worth analyzing because it represents the most effective, concrete and clear example of how the Troika programs based on the neoliberal dogma almost destroyed a country's economy and its future sustainability. The origin of the Greece crisis has both endemic and external sources, yet there will be analyzed the issues concerning Greece as part of the European community and as recipient of the Troika austerity programs, their consequences on the Greek economy and society, and, at the end, some data about the current state of things.

To begin with, it is important to mention the historical background of the Greek debt, because the debt crisis has not suddenly dropped into the country, but it is the result of enchained historical process. In 2008, when the global financial crisis exploded, the Greek debt was already really high: 94.8% of GDP. The mechanisms through which a state can accumulate debt are basically the same for every country, especially the tax cutting that may favour business, families, or privates. The deficit obtained by the reduction of taxation must be financed through borrowing and consequently through indebtedness. What went worse in Greece than in the other States is that the 2008-2009 global recession, which caused a fall in the balance revenues, revealed the real figures of the financial public expenditure that had been hidden until that time. The first facts about Greek debt can be tracked back to the military dictatorship from 1967 to 1974, when the indebtedness of the countries quadrupled for military expenditures. The debt kept on rising with the following governments because the huge amount of borrowings contributed to increase the level of corruption of the country –corruption is one of the endemic factor of the situation of Greece, since it corresponds to a personality trait of a population-. It has become renown that since 2009, the government in charge headed by former Prime Minister Karamanlis has modified the real figures of the government's debt in order to hide the ever more widespread corruption and keep a good façade towards the European Community, the European Central Bank, and foreign investors, so that money could continue to flow into the country without problems of confidence or mistrust –. Most expenditures has occurred for the organization of the 2004 Olympic games in Athens, and in weapons purchase, putting Greece as one of the five major

importer of weapons in Europe between 2005 and 2009[65]. It is quite curious to notice that the major sellers of weapons to Greece have been countries inside the euro-zone, among others Germany and France, which represent also the countries that are pushing the most with the imposition of rigid austerity policies. Later, even the private sectors' debt gradually increased during the 2000s thanks to the easy concession of credit to families and businesses by national banks, which in turn indebted themselves to finance their loans borrowing from the other European banks. The financial capital inflow, in fact, overcame the foreign direct investment, allowing a rapid but instable growth. Between December 2005 and March 2007, the amount of loans to Greek banks experienced a 50% increase, from 80 to 120 billion dollars. Again, between 2007 and 2008, the loans increased by 33%, from 120 to 160 billion dollars, maintaining this high level until the burst of the crisis, when the Greek debt amounted to 109% of GDP[66]. The fault is not just of the corrupted Greek government, but also of the other European banks, which used the injection of liquidity and the money from the bailouts to lend out easy credit at very favourable conditions. In the early 2010s, when the crisis revealed the real figures of the Greek deficit, which amounted to 10.8% of GDP, many investors began to speculate against Greek bonds. The first warning of a possible outbreak of the Greek crisis was, in fact, the high interest rate paid by Greece on government's debt. The next step was the shutdown of the capital market for Greece that resulted in the fact that no one would have bought any new bond issued by the government, so that Greece could not have borrowed anymore to finance its debt and repay the interests to the loans already obtained. The euro-zone leaders realized that something had to be done mainly because if Greece had not paid back the loans, it could have been a problem also for the rest of Europe. The problem, in fact, appears because the potential default of government's bonds means also a huge loss for the bonds' owners, who in the Greek case were mainly French and German banks risking their own insolvency. As a result, in fact, one of the first answers from the euro-zone was to provide credit, not to Greece, rather to their own banks. Further problems emerged when the demanded interest rate to repay this bailout was so high that it became clear that Greece's possibilities to repay its debt were really low. As a matter of fact, Greece needed more loans at new conditions and this is when the Troika programs began to be implemented in the country. The

[65] Chesnais, les dettes illégitimes , 117.
[66] Stiglitz, "The euro and its threat to the future of Europe", 202.

Greek case was astonishingly confused because the deregulation and the lack of transparency of the financial sector did not allow to understand which banks where involved and to which extent. However, the first important and fundamental step to avoid another financial crisis and put in danger German and French banks was to allow Greece to regain access into the capital market to guarantee the repayments of debt plus interests. Here is the key point of the disaster: the Troika, in fact, focused its policies to the aim of regaining creditors' trust in the financial market, rather than on effective economic growth and well-being of common people. Once again the interests connected to finance became more relevant than real economy, politics, and real people.

The "successful" –from Troika point of view- outcomes of Ireland and Portugal, described in the last paragraph, pushed Troika to continue the spread of its program in Greece, which would result in the biggest disaster ever. Nevertheless, in 2015 the Troika has doubled down its economic plan with ever more disastrous consequences.

In the previous paragraph it is explained in general terms how austerity policies can actually be implemented by increasing revenues policies that contain tax reforms or cutting spending policies. What follows is the implementation of such policies in Greece and their specific consequences on the economic and social context.

First of all, Troika has insisted on high taxation even on the lower-income levels. The Greek government has recognized the importance to extract revenues from taxation, but as said before, a misleading tax reform can push the country under more recessive pressure. Greece is experiencing a weak financial system that is denying to small- and medium-size businesses the access to credit. In such an environment, the Troika has asked to Greek firms to pay all their taxes in advance, precisely at the beginning of the year, when they do not have earned any money yet, and before knowing how much their actual earning will be. This mechanism was thought to avoid tax evasion, given the fact that Greece has always been characterized as very corrupted. The problem appears because the implementation of this legislation at the actual circumstances of the country will destroy small and family local businesses for sure, damaging the supply-side of the economy. As a result, given the absurd nature of the request, it is possible that rather than fighting tax evasion, the latter will spread even more with a even more distorted resulting economy.

Secondly, Troika made another request regarding tax policies; Greece has been asked, in fact, to eliminate its withholding tax on money sent abroad to foreign investors. This measure acquires an interest meaning when considering that one of the main exempt-taxes company is a German one, which has run Athens airport since 2003. It is absurd that foreigners could be exempted in paying taxes, whereas Greeks are obliged to do it even in advance.

Thirdly, another instance of bad taxation policies pursued by the Troika in Greece can be detected in the touristic sector. The proposal of a higher value-added tax in one of its most competitive branch, would have meant lower demand for tourism with bad consequence on employment, GDP, and Greece's actual account, actually decreasing revenues from taxes.

Last but not least, the personal feelings to senseless taxation imposed by strangers and not by a democratically elected government can raise resentments and noncompliance, actually increasing corruption and tax evasion.

As far as the cutting spending is concerned, the Troika's reforms were mainly about public sector pensions, considered exaggerated. In spite of the Troika considerations, the situation in Greece at the time of its first mandate was that the 45% of Greek retirees were designated €665 per month; in addition, the amount spent for older Greece and the average amount of the elderly living under the poverty line were far less than the euro-zone average[67].

Later on, in the fall of 2015, Greece entered its third austerity program. One of the main requests made by the Troika was to put an end to a legislation conceding a sort of "break" to those who owed money on their mortgages. In fact, in order to save a large amount of its population from poverty and homelessness, at the time the crisis commenced, Greek government had prevented with a temporary prohibition the possibility to foreclosure houses, yet the Troika "*kindly requested*" Greece to progressively reduce the amount of money that were used to compensate the prohibition. According to Troika's leaders, the ones who were enjoying this temporary salvation-ban were just lazy people who did not want to pay anymore their duties, and, of as a matter of fact, a tough series of policies should have been used to make them start paying again. Nevertheless, the situation was quite different. As already said, the

[67] Stiglitz, "The euro and its threat to the future of Europe", 197.

depression caused high rate of unemployment and many others who still had a job, had to bear pay cuts of more than 40%. As a result, most of those who were actually not paying while using the temporary ban to take some relief, simply were not able to pay, and not because they were just acting lazy. The consequences were that even more poor people remained homeless and, what is more, banks found themselves with a set of unsold houses, rather than with the revenues obtained by the repayments of mortgages, as the Troika thought it would have happened. When the Greek government tried to settle a negotiation to avoid a complete disaster, the Troika's leaders "magnanimously" settled that only those with an income below €23,000 a year would have received full protection. Ironically, those with such a low income could not even afford to own a house, so the negotiation was completely useless. This is to underline what said already in the previous paragraph: the technocrats did not care about real people suffering, but they were rather clung on reducing deficit, debt and restoring the ability to pay back what was owed to other countries and banks.

Anytime that the programs of the Troika revealed themselves as a complete failure, the participants were always surprised about the real outcome. For instance, the forecast on their initial program in 2010 was quite positive; an initial downturn would have led to a quick and progressive recovery. On the contrary, after 5 years of the implementation of the first package of policies, the rate of the economy was 20% below the expected[68]. Nevertheless, the Troika is still blaming Greek government to have not followed accurately the instructions, yet the truth is that Greece has weakened its economy because it did exactly what it had been required to do.

It is worth now providing some real data on the current situation through which Greece is passing to better understand to which extent the austerity policies have been a failure.

The standards of living in Greece are really disappointing. A country's well-being is not measured just by the GDP, rather it considers many other different aspects.

First of all, Greece is experiencing a high rate of unemployment, having reached a peak in 2013 of 27.8%, without substantial improvement in the following years. In addition, unemployment has brought consequences on the output-per-working age person rate, which has decreased by 23% since 2007; the data about the productivity are even worse, represented by the output-per-employed worker, fallen by 6.5% from 2007 to 2015.

[68] Data and graph available in Stiglitz, "the euro and its threat to the future of Europe", 183.

Secondly, another aspect to take into account talking about well-being is how much a family is tied. Here again, Greece is in a bad position, especially because of the huge youth's migration wave that hit the country during the recession's years after the crisis. The youth unemployment is, in fact, twice the level of the general unemployment rate mentioned above. Looking for a job in other European countries or around the world, the number of annual emigrants rose by more than two and a half times from 2008 to 2013 with the result that the total Greek population has decreased in number. Of course, those who decided to emigrate were the most high-skilled and those within working age, leaving the future of the countries to the elderly. This for sure will mean a lower possibility of a successful recovery and a burden of an always-increasing debt.

Thirdly, even if they have been described as the most important and impactful reforms introduced by Troika, the cutbacks in social spending also concerned education and other basic services such as health care. The Greek government expenditure fell by 22% between 2007 and 2015, increasing general insecurity, especially among lower- and middle-class citizens, because the high unemployment rate has been translated into cuts on wages and a more dependency on public services. This process had the worst consequence on the people well being, increasing inequality and poverty. According to the Gini coefficient[69], it increased by 5% from 2010 to 2014; whereas, according to Oxfam, by 2012, a third of Greeks were below the poverty line, and 17.5% of the population between 18 and 60 years old lived in families with no income at all. What is more worrying, then, is the level of childhood poverty. According to UNICEF, in fact, the rate of the Greek children in poverty increased from 23% to 40.5% from 2008 to 2012[70].

To sum up, the fact that the dose of austerity imposed on Greece has been much larger than in any other crisis country, the unexpected failures and disastrous outcomes have been even worse. This could have happened because Troika failed to analyze carefully the financial sector and, above all, the distributive effects of such policies. As recently recognized by the IMF, the unequal distribution of wealth caused by such aggressive polices has a weakening effect on economic growth, which experiences contractions and slowdowns.

[69] A statistical measure intended to express the income or wealth distribution of a nation's residents showing inequalities.

[70] All data are taken from Stigliz, "The euro and its threat to the future of Europe", chapter 3.

To conclude with, it can be said that the exaggerated faith in the neoliberal dogma created a more unstable and divergent economic system, rather than the opposite, which was the actual expectation. The wealthier countries get wealthier, whereas the poorer countries get poorer. Moreover, the greater level of inequality is experienced also within each country, emulating what is happening around the world. The example of the Europe crisis was central to understand how neo-liberalism works and how much blinded their supporters are. It is gradually becoming clearer why such neoliberal policies are not sustainable anymore, but further analysis on the distribution of wealth are required to make a complete argument to such an important claim. It has been said, in fact, that nowadays it is the inequality effect that is threatening a sustainable economic system to leave to the future generations, yet the words “inequality”, “distribution”, and “wealth” enclose an ample spectrum of meanings, implications, and consequences on people’s life and on Earth that will be the central focus of the analysis in the next chapter.

Chapter 3: Austerity Effects

3.1 Increasing Inequality

Capitalist systems have a natural tendency towards crisis, alternating "booms and busts", to use Harvey's words, cyclically. What really makes the difference is how governments and international organizations decide to manage it in order to re-establish a satisfactory economic growth and equilibrium. The instance of the European crisis is important to show how a deeply belief in the neoliberal dogma can divert the understanding of what caused the crisis and the most suitable policies to pursue to restore full employment and give to economics new incentive to start again and bring prosperity. Even if neo-liberalism is often associated with the absence of the government in the economy because of the trust in market fundamentalism and its abilities to adjust itself, the intervention of the government is necessary to set the rules of the games and protect the interests of the individuals for a continuing and prosperous growth that will translate into benefits for the society as a whole. The basic role of the government was recognized also by the two founding fathers of the neoliberal ideology, Milton Friedman and Friedrich von Hayek, to the extent that the market needs to be left with its own rules but the government should always watch over it. What is more, one of the basic beliefs of neoliberal supporters is that this system created under its inspiration is the only one which can provide and protect democracy, the noblest form of government in which the individual freedom is always protected. The concrete outcomes, however, turn to be slightly different; the form of government that has come to be created is called "plutocracy", that is the domination of the economic interests over the political ones: those who control big businesses or corporations are in a superior position because governments usually need the revenues that such businesses make and they also need that such big businesses continue their activities of investments. As a consequence, governments result to be submitted to the interests of such wealthier institutions, including the big banks, and tend to pursue policies to satisfy the rich rather than the majority of society. Plutocracy can be said to be the main cause of the increasing inequality that our generation is living; the market can be left free, but if the rules to access it and to extrapolate the best conditions possible are made

for the rich and not for ordinary people, the problem of distribution surges. Each government and each policy made have, in fact, a distributional effect, and over 40 years the direction took by wealth has been more and more upwards. The crisis in Europe has been managed with arrogant imposition of austerity to the most-hit countries by those organizations that bear the interests of the richest. Austerity means huge cut on social spending and tax increases, policies that have a strong power of distribution and if applied badly, the burden of the economic sacrifice is only on the bottom level of the society, where there are low- and middle-income recipients. This is actually what happened and what is happening still today, especially in Greece; finally the banks and the big businesses have been saved and they are continuing their activities, whereas poor people hit by a wave of unemployment are living disastrous conditions. The gap between rich and poor has become wider, threatening a sustainable growth for the next generations.

In the aftermath of the 2008 financial crisis, which quickly spread its effects around the world including Europe, the implemented policies to face the economic recession should have been focused on restoring full employment in order to give a restart to production and growth. In Europe the situation was badly managed because, as said in the second chapter, the structure of EU itself had been created on the neoliberal dream to give governments as less power as possible and therefore it has been flawed since the beginning. This in turns caused a double recession rather than a recovery and the increased rates of unemployment deepened the difference between rich and poor. A major role in shaping these outcomes has been played by the European Central Bank, one of the members of the Troika. In an efficient economy, a central bank should be focused on full employment and growth. However, according to the Treaty of Maastricht mandates, the ECB could control only the rate of inflation, because from the standpoint of the believers in market fundamentalism, the only thing necessary to markets is the control of the rates of inflation, which must be low and stable, in order to function efficiently. Whereas the other central banks with a more flexible mandate were depreciating their currency to make export more competitive, the fixation of ECB on inflation actually appreciated euro with negative effects on European production; statement concretized in the data about the GDP which has resulted as stagnating for

over ten years, with an increase of just 0.6% in 2015 compared with the year 2007[71]. If the ECB could have focused on exchange value by lowering euro's one, there would have occurred various incentives for the economy that would have counterbalanced somehow the disastrous effects of austerity. The limits given to the ECB impeded it to promote growth and stability; what is more, its monetary policies favoured those at the top by distributing the little growth that occurred upwards and therefore pushing increase in inequality within the euro-zone. The political –or plutocrat- nature of the ECB and its role in distributing growth to the already reach became evident when the debt crisis exploded within the euro-zone. From an economic standpoint, inflation reduces the burden of the debtor at the expense of the creditor; on the other hand, adjusting inflation occurs via interest rates and by rising them to reduce inflation –for the interests of bankers and creditors, usually the richer-, growth, employment and workers are damaged. In the aftermath of the financial crisis, the choice was not aimed to safeguard employment but to create a program of "corporate welfare", that is the decision of the central banks to transfer money to the commercial banks of the advanced countries –and so to the private sector- rather than implementing a program of public welfare to help those who lost their jobs or those who could not repay their debts. The focus on inflation by the ECB that favoured creditors increased even more the level of unemployment that in return has increased inequality. The request of wage's flexibility that came from the former head of the ECB, Jean-Claude Trichet, is another example of the political nature of the Central Bank and the influence of their policies on inequality. Flexibility of wages means, in fact, that further cuts had to be made to favour the private interests of businesses in the short-run; what he did not seem to consider is that a deeper cut in wages would have depressed the demand and as a consequence deepened the recession. The problem was that the implicit request was that if such political decisions were not to be made, the ECB would have never helped any country's banks. The evidence that the ECB was making the interests of the better-off happened when it did not act as last lender for Greece in 2015 and it became the instrument to make Greece accept the disastrous austerity policies imposed by Troika. As Greece was negotiating with the Troika, in fact, the country's banks were forced to shut down, rather than being allowed to borrow from the ECB. What is more, if Greece had not accepted the policies

[71] Stiglitz, "The euro and its threat to the future of Europe", 65.

imposed by the Troika, the ECB would have made the situation for Greeks even more difficult. The ECB has the power to decide the financial survival of a country, especially when it is under crisis and many of its banks are about to default, and this kind of decisions are made under political and financial interests. The ECB decides what is better for financial institutions and private investors and then acts on the base of such interests. Nothing could be more unfair and have extreme distributional effect at the expense of ordinary people. Of course, a Central Bank will always be at the side of other banks and investors and the policies promoted will always be in their favour, no matter what happens to the majority of people. At the end, French and German bondholders, in fact, had what they were owed in return, whereas the impact of austerity imposed in Greece has been tragic; as data show, by 2014, 36% of Greek were at risk of poverty, the highest rate in the euro-zone; also the proportion of Greeks below the poverty line has increased from 12.2% in 2009 to 15.8% in 2014. These data confirm that the austerity policies and the neoliberal agenda so deeply followed affect mostly the ones at the bottom making them poorer than they were already [72].

However, the double-dip recession in which Europe and especially Greece has been sinking is not just fault of the decisions of the ECB, but it has been deepened by the certainty that the main problem for Europe to face was the fiscal deficit and that this constituted the cause of the recession. What is more, there has been another flaw at birth of the EU consisting of considering the different countries hit by the crisis as a whole. It is true that the European Union was born to create political and economic cohesion, but the different countries have been hit by the crisis differently because of the different economic structure in each one of them, and the mistake has been to believe that the same package of policies would have been effective in all the countries. Having the same interest and exchange rate can be distortive because they are monetary instruments used to keep macroeconomic balance and attain a balance of trade. Plutocracy played its role once again in exploiting the ill structure of Europe to its advantage. Germany is probably the most influential and strongest country within the Euro-zone and the German financial ministries made political choices to assure that the German along with French bondholders had they returns no matter what. As a matter of fact, Troika imposed strong austerity because the results in deficit reduction can be seen in the short-

[72] Stiglitz, “The euro and its threat to the future of Europe”, 221.

run and the government of the crisis country would have been able to repay their creditors as soon as possible. The other factor that influenced these particular political choices has been to blame the most hit countries for the recession, and this allowed the Troika to impose its programs with strong emphasis.

Another clear example of how plutocracy has influenced the deepening of the crisis is given by the bailouts of the banks labelled "*too big to fail*", because most of governments' bonds are in control of such banks, government can not allow them to declare insolvency or they will be obliged to default in their turns. In fact, public debt is said to be one of the most effective instrument to maintain the government under control of the capital market. Plutocracy, however. has also other forms of shaping governments in their favour more directly, such as the political donations they make in order to influence politicians to make suitable laws for their self-interests, or activities of lobbying to achieve their aim to make more money. It is clear that the focus of every speech is on "money"; as I will explain later, the capitalist society has created a system in which money is the most important feature that defines the human being. It comes quite naturally, then, to understand why the financial crisis has been faced by protecting the interests of bankers and the rich in general to the expense of ordinary people, who had to face huge doses of austerity imposed by "strangers".

As I have already explained, austerity refers principally to massive cuts on public expenditures and raising taxes mainly from low- and middle-income citizens, policies that have direct distributive effects on society and increase the inequality gap among classes. The risen inequality in Europe after the crisis, in fact, has been a result of bad managing by the government too submitted to the decisions and self-interests of the financial sector and corporations in general, a result of plutocracy indeed. In fact, from the point of view of a businessman or investor in general, cutting spending and raising taxes that will turn into a reduction of the fiscal deficit of a country will increase trust and confidence in that market that in return will attract more investments. Yet, the stress on confidence and lowering risk should be combined with policies that actually increase them and not the contrary, as austerity actually does. Austerity deepens unemployment and lowers growth, because the recessions are usually caused by lack of demand –when the economy is able to produce more than what is actually demanded-, and due to cut on public expenditure, the demand lowers even more and increases the rate of

unemployment. In return, higher rate of unemployment usually requires an increase in social expenditure on welfare to subsidize those citizens left without a job, yet with austerity it happens exactly the opposite and those who most need assistance by the government are left to themselves in a situation of poverty. Therefore, the choice to leave the burden of taxation on lower classes is another outturn of the neoliberal dogma. As I will explain later, in fact, there is a deep belief in cutting taxes at the top because it is said that the rich, having more money, will be more inclined to spend and to invest in productive activities and that their contribution would be enough to stimulate demand and therefore economy. Once again, the results are the opposite.

On the other hand, the confidence in one country's economy should come along with policies that actually increase employment and growth and they are usually created by social spending on public investments along with policies aimed to full employment in order to restore the aggregate demand, as it happened during the New Deal in the United States.

To conclude, it is important to talk about the Gini coefficient, which is the instrument used to calculate the level of inequality within different countries. It takes as a unit of measurement the distribution of income, and the value of 0 corresponds to perfect equality, whereas 1 refers to the maximum level of inequality. Data taken from Eurostat, the Statistic Office of the European Commission, show that in Greece, the country most assailed by austerity, the Gini index has increased from 0.33 points in 2009 to 0.34 in 2015.

Inequality is not only a matter of European misguided policies or the result of austerity; it is a burden affecting the whole world. How Europe managed the crisis is just an example, an explicit example, of how policies made by the rich for the rich can affect the gap increase among classes and how it affected the real economic growth necessary to maintain and sustain the system we are living. The next two chapters will analyze respectively how inequality has been created and has increased since the implementation of the neoliberal agenda and through which means it has been spread. The last chapter will focus on how inequality actually affects economic growth.

3.2 The Unequal Distribution of Wealth

Throughout the dissertation, I often underlined that the faith in the set of ideas dominating the western economies and politics today is actually increasing inequality and it is no longer sustainable in the long-run. Moreover, it is quite ironic that the founders of the ideology that today is known as "neo-liberalism" were deeply convinced that a market system left free without any kind of intervention from the government would have spread benefits for the individual first, and then for the society as a whole. Unfortunately, it seems it has gone the opposite way. As a premise, it is fundamental to underline that policies made by people on the base of deep beliefs in a particular dogma have a more concrete impact on the outcomes than the impacts provoked by the market or the globalized system *per-se*. The problem, in fact, is not whether the globalization and its economic characteristics are good or not, but rather that the policies that are managing it are wrong, given the level of inequality that is increasing as time goes by. The market left to itself, in fact, has a great power in spreading productivity and growth, as it actually did in the past two hundred years, but the role of the government and policies pursued in order to control somehow the greedy and unmoral character of the free-market system were fundamental. This detail has been always omitted by neoliberal think tank since their first practical experiment in Chile, as explained in the first chapter. Their beliefs have being chased so strongly that actually, nowadays, the markets are really free to express their inner unmoral and greedy power to the extent that they can concentrate wealth, or abuse workers and consumers, just to mention some of the main destructive consequences the society is experiencing. Not enough, the policies that are being pursued seem to help this process rather than control and restrict it in order to ensure benefits for all the society.

Oxfam, an international confederation of no profit organizations aimed to reduce poverty worldwide, publishes a report every year, in which it considers how much inequality has increased and why. The last report dated January 2017[73] bears the title "An economy for the 99%" and it states that the eight richest men in the world own as much as poorest 50% and the gap is far greater than expected the previous year. Just to mention some other data extracted from the report, the increase of the incomes of the

[73] The report can be found and downloaded from the official website of Oxfam. https://www.oxfam.org/en/research/economy-99

poorest 10% increased by just $65 per person, whereas the incomes of the richest 1% grew by $11,800 per person in the last 30 years, that is 182 times as much. The report also mentions the causes of such huge gap between rich and poor, stating that the super-rich have created a sort of network in the system just to satisfy their own benefits. Tax heavens, lowering wages, less investment in real business, maximizing profits to distribute to shareholders, and influencing policy-makers are just the most important instruments that the super-rich use to maintain their status quo and to enrich themselves even more. At the end of the report, Oxfam warns that this kind of "financial capitalism" can not be sustainable anymore and that something must be done to change the current economic system. What is more, the World Economic Forum[74] has been putting global inequality as one of the major threats to global sustainability and social stability for years in order to underline the danger that inequality can bear at a global scale. However, this is not only a matter of inequality in the distribution of wealth but also a matter of unfairness that should be reversed by new policies focused more on their distributional effect.

Even the IMF has recognized most recently in the academic article quoted at the beginning of this dissertation, that the policies under the label of "austerity programs" along with the deregulated financial sector mainly, are increasing societal inequality, which in turns is threatening a stable and long lasting economic growth; this is because divided society are not assumed to function efficiently, bringing about economic, political, and social consequences. The statement came as the conclusion of the analysis on how neoliberal policies are actually influencing and modifying the system we are living today in favour of the already better-off.

As a result, although the free-market system has intrinsic forces pushing to create inequality, it is the government policies that actually control and manage those market forces, so that the level of inequality we are experiencing today is dependent on policy-makers decisions establishing if the money flux should go from the bottom to the top or vice versa. In order to explain the importance of the role of the government, it is important to report that even Adam Smith, the father of liberalism, an ideology that influenced much of the neo-liberal thinking –as suggested by the name itself-, was

[74] The World Economic Forum is a nonprofit foundation based in Swiss which aims at "improving the state of the world by engaging business, political, academic, and other leaders of society to shape global, regional, and industry agendas".

conscious that markets left entirely free actually fail to produce efficient allocations and outcomes that will benefit the society as whole. As a result, the government *must* have a role, even if marginal, in correcting those market failures throughout taxation and regulation policies, which will bring private rewards and social contributions on the same level. Actually, both Milton Friedman and Friedrich von Hayek have discussed and written about the role of the government; it is, in fact, necessary to design the rule of the games and protect the individuals. What went wrong is that the government, influenced by the rich, did protect the individuals but just the already better-off.

Having assured that the role of government is central in shaping policies with a distorted distributional effects, it is time to analyze the mechanisms throughout which wealth and income are unequally distributed, and how this process actually affects economic growth by distorting it and endangering the next generations. The importance of inequality is central in evaluating the success of an economic system because its durability in the long run is not just based on the figures of the GDP, but also in the well-being of the population.

Before deepening the issue of inequality, it is important to understand where does wealth come from. The definition stating that it is created from the production of goods and services is not complete. The current production can occurs thanks to the inheritance of "the commons", that is what has been already built, produced, or invented in the past, such as innovation in technology, telecommunications, infrastructure; and nature's resources. The dependence on the commons are one of the first source of unequal distribution of wealth worldwide because their availability to individuals differs from place to place, and the development of the so called "forces of production" is a good indicator to understand one's well-being. According to Marx's point of view, the force of productions are the means of labour, such as equipment, infrastructures, technology, and resources combined with the human capital, that is one's skills and knowledge. This varies from country to country and the inheritance of such productive forces is fundamental to the background on which one can create his own well-being. For instance, if Steve Jobs was born in a country not advanced technologically and with no electricity, maybe we would had never heard about Apple and its devices.

The commons do not include just the forces of production, they also refer to institutions that protect us and enable us to live the way we do; they refer to cultural goods too; for

instance, they allow researchers to make innovations, because innovation itself is based on researches on what already exists and on what we inherit from the past. In addition, one of the most important factor included in the commons is the environment, which gives the roots for the development of the others already mentioned. For instance, the resources available under the local soil, or the climate, make possible the transformations and inventions we have created first to survive and then to enrich ourselves. The same effort made by two farmers on two different type of soils, for instance, can produce completely different amount of outputs. The difference in the geographical position of such commons and the globalization has favoured another form of inequality, that is the one among states, or better among different blocks of the World. The western countries, in fact, can benefit from the cheap imports of products made where the labour is low-paid, whereas in such countries, workers have to work longer than those with the equivalent task in the rich countries to afford the same product.

Beside geography, there is another important factor that allows us to use efficiently the commons to our own benefit and it is the education system. The latter has, in fact, a central role in shaping people mind and transferring already existing knowledge and basics to next generations, so that they can use them to innovate and prosper. Education represents a central argument of discussion in neoliberal theories and in the spread of inequality; as we will see later, the dismantlement of the role of the government in providing social services, such as education, and the further cuts to public expenditures with imposed austerity, is preventing many citizens from obtaining a respectable and high level education and such policies are increasing the inequality gap within one country among the better-off, who can afford it anyway by paying, and the worse-off, who have to depend on neglected public education. What is more, the difference in payments of the employees, which represents one of the cause of inequality, is given by the skills and the knowledge that one possesses, and usually they are developed throughout high-level education and a vital and healthy social environment. Now that it is known where wealth comes from, it is time to analyse the factors that contribute to its unequal distribution.

The concept of inequality has always characterized the historical and social background of our society. The polarization of economic and political power in the hands of few

people, in fact, was even more evident in the pre-capitalist western societies. At that time, it was religion that justified and explained the level of inequality; those who were in charge, such as kings, were actually occupying such position because of God's will, and so they deserved all their wealth, whereas peasants were starving to death.

On the other hand, once the idea of religious rights were abandon thanks to new ideologies such as the Enlightenment and the success of the Industrial Revolution, the inequality developed among countries in the modern era is said to be a consequence of the military power that one country could exert on others by stealing their resources just because they considered themselves "colonized people", whereas the others were just savages. This was the time of the imperialistic order of the world that is influencing somehow the current geopolitical framework still today. As a natural consequence of the military power, those who possessed it used it not only to conquer other countries but also to reinforce their political and economic position. Moreover, since they had to justify their unfair higher position, those in power tried to shape education and thinking in their favour. As the Industrial Revolution continued to flourish and growth was increasing as-never-before, a new urban class of workers began to appear claiming its right. As a result, a new justification for the inequality between workers and employers needed to be developed, and the theory that gained major success in the second half of the nineteenth century and that is still dominating is the one called "marginal productivity theory". According to this theory, *"those with higher productivities earned higher incomes that reflected their greater contribution to society."*[75]

The laws of supply and demand, in fact, are enough to set which is each individual's contribution to productivity, according to the variables of skills' scarcity and technology. This is mainly the economic force that is shaping today's inequality, but as we already mentioned above, it is the government who actually set the rule of the games, as Friedman wished. Not only the government can state when an activity is illegal or what to do when someone is not able to repay its debts, but it can also alter the distribution of wealth and income throughout public policies, such as taxation and public expenditure. Here becomes necessary a first distinction between wealth and income: a general definition of wealth is that it is the market value of all the assets possessed minus the potential debt owed, and it is different from "income", the former

[75] Joseph Stiglitz, "The price of inequality", W. W. Norton and company, New York City 2012, 43.

as the representation of the value of one's assets at a point in time, the latter indicating a flow of money in a given time of period[76].

In modern societies, the difference between the rich and the poor is not only quantitative as it has been reported by Oxfam, but also qualitative, in the sense that whereas most of the ordinary people "*create*" wealth through their work producing goods and delivering services, which result to be "use-value"; the rich "*extract*" wealth from others without creating anything labelling "use-value", and exploiting the already described over-deregulated financial sector to achieve their aims. The marginal productivity theory looses now its significance because it is clear that the activities of wealth extraction actually do not contribute to the well-being of societies, even if it is still being used by the better-off to justify their *status-quo*. However, the understanding of the difference between these two type of wealth is the key step to understand why its distribution is more and more unequal and how the policies implemented under the influence of the already better-off are opening out the gap.

There are several ways in which wealth extraction can operate to the benefit of the better-off and most of them are based on the concept of the "*ownership of the commons*" by a minority. In fact, neo-liberalism promotes and supports privatization policies in order to achieve more efficiency. Yet, privatization usually allows the minority to take control over the commons, which should be heritage available to everyone, and they extract wealth just by allowing others to use their possessions. The transfer of ownership of the inherited common from public to private individuals lays the foundations for power relationships in which those at the bottom are submitted to the will of those at the top, and, as a consequence, it fosters inequality within the same society.

First of all, one example of the ownership of the common that represents a form of wealth extraction is given by the mechanism of rent. Renting allows asset-owners to use their power to extract wealth from those who need the asset but do not possess it. Rent is usually associated with private property and it refers to a portion of land or house given in concession in exchange for a price. The landowners, in fact, can charge others just for the concession of using their property, without creating anything useful, since the land, or everything provided by Nature, already exists. However, this is the

[76] The definition is taken from: Sayer, "Why we can't afford the rich", 37.

traditional meaning of “rent”. Recently, with the arrival of capitalism and the neoliberal ideology, the meaning of “rent” has been extended by economists to all those means used to extract wealth just by controlling an already existing asset. For instance, private monopolies exert such a power that they can decide the price with which they will enter into the market, and usually the fixed price far exceeds the costs of production or the costs for the investments, and it is usually higher than it would have been in a situation of perfect competition; as a result, part of their profits can be labelled as “rent”. It is curious to notice that neoliberals promote the perfect competition system, yet policies *de facto* of privatization have created and are still creating private monopolies, especially in the public utilities sector[77].

However, in general terms the actions of literally seeking assets, which will ensure the owners to extract rent from those who will use it –usually the public-, are called “rent-seeking” activities, and they are mainly profitable in the financial sector. They are at the base of the transfers of income from the bottom to advantage of the rich, because the income they get from such activities is not a reward for their productivity since they create no wealth. What is more, these activities have a downsizing effect on economy because they turn aside resources from wealth creation use to wealth extraction purposes.

The statement that the financial sector has helped the rent seeking activities to develop is because its extreme deregulation and lack of transparency allow, for instance, to sell unsecure stocks with high probability to fail, or taking excessive risk because the government will eventually bail out banks about to default, because they are “*too big to fail*”. However, another form of rent seeking which has a direct impact on the increasing level of inequality is the massive concession of loans with favourable conditions from the financial sector to the poor and most uninformed, which allow the already rich to make huge amount of money on the interest rates they get in return of these concessions.

Others form of rent seeking more involved with the government actions can be represented by laws that deregulate both the market and the financial sector; statements that give more power to corporations; or the already mentioned monopoly profits. This forms of profits, which represent wealth extraction, are quantitative and qualitative

[77] The explanation of the process of privatization and its consequences have been explained in Chapter 1.

different from the nature of the wages of the workers, who are paid less than the value of what they produce.

Second, another cause of inequality caused by the ownership of certain commons is the profit generated from production. It is necessary to mention how the capitalist system we are living today works in order to explain how this mechanism works and which are its implications in the transfer of wealth from the bottom to the top. According to Marx's analysis, the workers do not own the means of production they use to create goods and services that, once being sold or delivered, will produce profit. Not being in possession of the means of productions means that the workers are dependent on those who own them, that are the capitalists, who represent a minority of the society. Profit, which is the ultimate goal of a capitalist, can be made only if the workers are not paid exactly for their contribution, so that they will be always in an inferior position because of the inability to buy back the same amount of what they have actually produced with their work. As rent, the pure ownership of the means of production by capitalists makes them wealth extractors, rather than wealth creators. They do not contribute to actual production and economic growth., but their profit is given by the difference between the price of the goods and services placed into the market and the costs they have to bear in order to produce them. Of course, since the final aim of the capitalist is to maximize profit, he will leave at the bare minimum the costs associated to production, included wages of the workers. Once, the profit obtained with the sale and delivery of goods and services was mainly re-invested in innovation and improvement about the production, so that at the end of the game the productivity and the economic growth actually took benefits. However, the rise of the neoliberal thought, and its consequences on the deregulated financial market, has switched the interest of the capitalists from long-term productive investments to short-term capital gains. The inequality has risen because nowadays most of the profit is used to make even more profit through the means the financial market offers, such as speculation, shares and dividends, mainly to the benefits of shareholders and CEOs of the big companies. In fact, even if the actual production grows and the profits increase, the workers –mainly the low- and middle-income people, will not see a compensation in return. As said before, the profits gained at the end can be labelled as concrete profit just if they can be spent somehow in the economic system to allow it to work efficiently. The speed on which financial profit are rising is

not being compensated by a concrete economic growth. Capitalism, by definition, needs an endless growth in order to survive, but such a growth has become unsustainable for the Planet and the people they are living on it.

Third, it has been mentioned above that one of the mechanism through which the rich can extract wealth from the lower levels of society is the interests on loans. Whereas the asset taken into account talking about rent was a tangible one, we are now talking about money. This argument is important for this analysis because it is one of the relevant aspects in a debt crisis and it plays a major role in identifying if a debt can be repaid using austerity; on the other hand, the governments, or banks themselves, have to declare insolvency. Before the rush to deregulation of the capital market, the interests' mean was seen as a sort of reward or compensation for those who could lend money and so, denying to themselves its use. What is more, the money lent was usually used for productive investment and it was thought that the growth derived from that particular investment would have benefitted the society as a whole. In addition, the semantic aspect of the word itself used for this kind of operation has lot to say. Once, when a bank or a private lent a sum of money, the latter was called "credit", assuming a positive meaning. On the other hand, nowadays it is rare to hear about "credit", rather since the 1980s Latin America's crisis, it is commonly used the word "debt", assuming a negative nuance towards who borrows money, and he or she has to remember it everyday as it was a burden. Moreover, it suggests a kind of subjection of the borrower, in the sense that if he will be not able to repay what is owed something bad would happen –the same reasons are valid, of course, also for governments debt -. Linguistically speaking again, the label "debtors" justifies the ideological and economic dominance of the creditors – mainly the "magnificent" and "benevolent" banks-. Besides, the financial institutions which usually lend out money, tend to label it as "credit" or even "easy credit", so that the borrower is more tempted to accept the conditions, including the interest rate he will have to give in return. Those who actually succeed in obtaining a loan will feel worthy and they will do anything they can to repay the concession they have been given to use money they do not actually possess. Words meaning and semantic is central even in an economic context and banks, or other financial institutions, use this kind of "*ars oratoria*" to push their lending because one of their main source of wealth extraction is the repayment of interest rates.

Back to economic definitions, the debt is a social contract between the lender and the borrower and the debt becomes itself an asset to be bought and sold, or to become an object of speculation. The source of inequality appears because the social contract is often between who lacks money –usually the low-income people- and who has enough savings to afford to give some amount away –usually the already rich-. The interest rates are usually extra money that the poor will have to return to the rich plus the amount of the initial debt. Here it is when happens the distribution from the bottom-up widening inequality.

Reporting some global data, the total amount of "aid" given to the developing countries in 2005 consisted of $40.4 billion, whereas the total returns to the rich countries amounted to $43.2 billion[78]. Usually, in order to pay that difference in interest rates and debt services in general, the government asks low- and middle-income citizens to accept austerity policies, which will impoverish them and impede the actual economic growth needed to pay off the debt. Yet, the economic growth necessary to support this process is unsustainable in a vicious cycle where governments indebt themselves even more to pay off debt. What is more, the rich are usually excluded from these mechanisms because of their influence on the government and because they are usually those who possess the government bonds on which they demand the repayment. The government debt is, in fact, one of the major causes of inequality, because the income is redistributed from the ordinary taxpayers to the already rich bondholders. A correlated source of inequality is given by the potential bailouts of banks that the government decides to sustain. With bailouts, in fact, the private debt that belonged to the banks is transferred to the public sector. This movement favours the rentiers because of what it has been said before: the rentiers are usually the bondholders and the debt transferred from the private sector becomes sovereign debt. When a government funds bailouts, it put itself at risk because, along with recession and stagnant economy, the sovereign debt becomes unsustainable and the default risk increases. When this possibility is about to become a certainty, the financial sector demands expenditures cut to the ordinary citizens through its soft power on politicians who impose austerity. To this extent, the bailout itself becomes one of the source of unequal distribution of wealth from the bottom to the minority at the top.

[78] Sayer, "why we can't affar the rich", 62.

In general term, neoliberal economists strongly believe that pursuing oneself interests would have lead to the well-being of the society as a whole. Yet, what actually happened right after the 2008 financial crisis was slightly different. The bankers did achieve their well-being, but the society bore the cost in a so called "negative-sum" game, because what the society lost was bigger than what the bankers obtained. This happened because the financial sector used its political influence to ensure that the sector's rewards would have exceeded their social contributions, a direct cause of the huge inequality in the distribution of wealth.

Fourth, globalization itself, especially the financial globalization, has allowed inequality to spread. Even if their supporters focus their attention on the benefits that the openness of capital markets has brought, such as an efficient distribution of FDI or technology information, the result is that this financialization is still bringing many benefits to those who extract wealth over workers. For instance, the fear of a possible capital outflow towards a less deregulated job-market in case of an increase in workers' salaries, or a demand for a more regulated environment, keep such workers submitted, because the actual competition across the countries has brought to lowering wages and a weaker position for workers. This may be labelled as "efficiency", because the resources goes to places where taxation is low or where there are seldom regulations; yet it remains an efficient allocation just for the owners of the companies or their CEOs. In the financial sector, this competition has been translated into keeping the financial system less regulated as possible, so that big businesses are not persuaded to move abroad looking for other markets. This financial deregulation has been recognized to be highly dangerous for the stability of the whole system because, as it happened in the most recent crisis, a problem born in one country can be easily spread anywhere else and it can affect other countries, as it is happening in Europe. As a result, the victims of crises are usually small business and workers who see their job disappear or their wages cut, with an increase in inequality rates. Then, as it is happening in Greece, crisis countries are asked to cut their public expenses or to sell out public assets; operations that convert the crisis in deep recessions and depressions.

The globalization of the financial market has surely become a major cause of inequality, but the so called "trade globalization", that is the free movement of goods and services around the world, is another indirect source of the inequality hitting the global society.

The elimination of tariffs and customs has always played a major role in the international negotiations, as it can be demonstrated by the project to establish an international agreement on the liberalization of trade right after the Second World War in 1947. Later, it was born the World Trade Organization, which would flank the IMF and the World Bank in the spread of economic prosperity.

The free movement of goods is basically a substitution for the movement of people. The import of goods which requires low-skilled labour will diminish the demand of such workers in the domestic economy, lowering in turn their wages. In addition, what makes the situation even worse is that the abolition of customs and tariffs allow businesses to deploy their power and make their workers accepting bad conditions just with the threat that otherwise the company will be transferred in some others countries. Nevertheless, if the firm actually decides to transfer its activities in another country, the workers would suddenly lose their job, increasing the unemployment rate and lowering the aggregate demand. The same process of persuasion happens against the government and it is one of the main means of soft-power that corporation have. They can push the government to lower their taxes, otherwise they will move elsewhere, where the taxation is lower and they will contribute to the growth of the GDP of another country. The inequality arises when the cut to taxes of the riches is counterbalanced by an increase in taxation for the low- and middle-income citizens. A main role in the game of avoiding taxation is played also by tax heavens, which become themselves a cause of increasing inequality. This is because such tax heavens are really competitive among each others to attract the major amount of wealth possible. As a consequence, such a strong competition forces countries to lower the taxes that most affect the rich, in order to maintain profitable business onshore. What is more, tax heavens in the developing countries usually cover illicit capital movements or allows corrupted leaders to hide money given as “aid” to use for their personal benefit.

To sum up, the way globalization has been managed by western countries is influencing the growth of inequality, both for the depression of workers wages due to the global competition, and for the cut to corporate taxes that are being balanced by taxing the already worse-off, rather than implementing policies aimed to full employment, which will in turn restore the aggregate demand and give the economy a new incentive to produce.

To conclude, all the factors described above have widened inequalities almost all over the world with the support of the deregulated financial sector: the rich are still making profits even after the crisis throughout rent-seeking activities and dividends on shares of big companies. In the same time, their taxes have being progressively diminished, whereas common people have seen their taxes progressively increasing. This has happened because of the strong belief that the rich would have brought benefits for the whole society allowing more creation of wealth than any other ordinary citizens would have done. Yet, the opposite happened since the fact that the rich are less inclined to spend. Data show that the world real economy grew in per capita terms at only 1.4% after 1980. Again, the figures of broad money[79] available for the financial sector increased from 65% of GDP in 1980 to 122% in 2015; whereas the data about FDI remain quite stable from 1970 to 1990s, achieving a peak in 2007 but turning downward until today[80].

Last but not least, it is important to explain how the taxation system works. Tax reforms are central in the programs of austerity imposed on Europe and Greece, and they represent one of the main instrument that a government has to redistribute wealth in an equal, or more often, unequal direction.

A good and fair tax system should be "progressive", in the sense that the burden of high taxation should be on those who can afford it, that is the rich, and not the opposite as it is happening. Neoliberal policies supporters keep on assuring that if the rich are left with their huge amount of income, they will create aggregate demand to stimulate economy, and they can invest their money in productive investment; but this is not happening, as we have already noticed. The rich want to get richer and want to keep the distances from the lower classes, so that they use their untaxed money to invest in speculation or other activities with no social returns.

A good tax system that does not distort the economy more than the necessary would hit exactly those sources that allow the rich to extract rent from common people. For instance, it is desirable a tax on lands or natural resources, or, more generally speaking, taxes should hit those items which impact on demand and supply is restricted. Taxation on rents, for instance, does not reduce the amount of land. As I have already mentioned

[79] The totality of money supply, given by the amount of assets that businesses and families can use to make payments or to hold as short-term investments.

[80] The data are available on the World Bank Official website.

before, nowadays rent can be extracted in many ways, such as throughout monopoly power; a tax aimed to hit such kind of rents would prevent and discourage the activities of rent-seeking and, as a consequence, it would reduce inequality. Therefore, there should be taxation on particular targets, such as non-renewable resources, in order to divert investments from polluting activities to more sustainable ones, where the productive and social impact is greater. Today, in fact, those who pollute the environment –owners of chemical plants, mine owners, and so on- do not bear the social costs of the negative externalities produced by such activities and this is another source of distortion in the economy. Even if not well promoted, there is the so called "carbon tax" that many countries have adopted or are trying to adopt. The carbon tax is a tax on the emission of CO_2 that should help big companies to invest in renewable energy. Not surprisingly, plutocracy dominates once again even in this field: this tax finds a strong opposition in United States, homeland of the Koch industries, the main company committed to activities such carbon extraction and petroleum refining. Not surprisingly, the Koch brothers are the main donators to those institutions that deny the climate change-.

At the same extent of companies involved in the extraction of resources or in the creation of chemical products, even the financial sector produces negative externalities called "toxic assets"[81]. Yet, the excessive deregulation and volatility that led to the 2008 financial crisis has not paid its social cost. On the contrary, the bailouts made by governments had exactly the opposite effect. In Greece the situation has been even worse because the banks were forced to shut down and the depositors were kindly asked by Troika to transfer their money to other European banks. This was a counterproductive policy that hit equality too; in fact, big corporation managed to move their money before the banks were forced to shut down, whereas small business and ordinary people were not able to do it because they had not easy access to foreign banks.

As common sense should suggest, an efficient tax system must be aware of who is going to bear the burden and additional taxes should hit the place where the money actually is, that is the top; the taxation of the rich could bring large revenues to the government to be reinvested in productive and public activities. Such taxation system

[81] Assets which value declines until they result unsellable.

has never been considered because most of the income of the rich comes from the activities mentioned before that are not being taxed enough. On the contrary, as plutocracy drives the political system, the taxes have been increased and imposed on the low- and middle-income recipients. In fact, as we have already repeatedly noticed, the role of the government is central in shaping policies with a distributional effect, and usually it does so in favour of the already better-off because of their soft-power used to influence the policy-makers.

3.3 How Inequality Affects Economic Growth

The academic article of the IMF taken as the starting point for this dissertation concludes its analysis by stating that the neoliberal policies pursued until now have created a system that is actually affecting economic growth with downturn effects, rather than making it sustainable for the next generations due to the increase in the level of inequality. The policies that benefit the small group of the already rich are not creating benefits for the entire society because they transfer useful revenues to a small part of individuals rather than being invested for the well-being of the mass and to sustain the economic growth. However, what the rich seem to forget is that if they want to maintain their social *status quo* they need an effective, productive, and fair society. History has already spoken about this issue too. Taking again as an example Latin America, it can be noticed that the debt crisis in 1980s has increased the gap between the rich and the poor and today, the region is the most unequal in the world, according to Oxfam. Although billionaires have increased their wealth of 21% from 2002 to 2015, the economic growth in 2016 has been around 0.2%. Inequality not only leads to less productivity but also to major instability that in turns affect anyway economic growth; in fact, many countries in Latin America are facing high level of criminality, civil wars and internal conflicts, which are eroding the possibility of a stable and sustainable growth. However, the strong belief in an ideology seems to overcome the evidence of the historical process.

There are several mechanisms through which inequality is threatening the economic growth necessary to the well-being of the society as a whole; unequal society, in fact, are said to not work efficiently.

Firstly, from a pure economic standpoint, inequality hits the aggregate demand, which is the engine that fosters the economic productivity and on which depends the rate of unemployment. Common citizens, in fact, do create jobs by spending their money and, in fact, job figures increase when people and companies are actually spending more. As a result, economic growth can not occur if there is no demand; this is the problem that the most recent crisis has created. The rate of unemployment, in fact, has risen worldwide and, without a secure source of income, people can not afford to spend. The policies implemented, such as austerity, have made the situation even worse because they did not focus on projects aimed to restore full employment and the demand of goods and services. John Maynard Keynes stated that wages and salaries represent a cost from the point of view of the employers, but they represent also a source of revenue to spend in buying goods and services. If low wages do not allow the majority of people to buy more consumer goods, it would be no profitable to produce more, causing a lack of sectors towards which productive investments can be directed. This will naturally cause a switch of investments towards rent-seeking or speculative activities in the financial sector, causing a dysfunction inside the capitalist system that need continuous real growth in order to survive.

It comes quite natural to ask oneself why the rich and their income are not enough to create a sustainable demand that allows the real economy to grow. The problem is that paradoxically the rich are less inclined to spend their money and they use just a little portion of their income in buying goods and services. They rather prefer saving money or investing them in financial markets to extract even more wealth. What is more, the consumption of the rich is itself unequal distributed, in the sense that they spend a large part of their money on a sort of wasteful goods and services that in turns are created by wasteful production. The luxury commerce, in fact, can be seen as a waste of precious resources and human labour that could be reallocated to the production of more useful social goods. This misallocation of resource distorts economies and make them less sustainable. The rich, in fact, can switch investments from productions addressed to ordinary people to productions addressed to them; this is possible because, in the

globalized world, each product we buy or we rely on depends on the labour of many people located in different part of the worlds. As said before, interconnection between people and countries can foster inequality and instability rather than economic prosperity if bad-managed.

On the contrary, those at the low- and middle-income levels will use their money just to survive or to pay off their debts, and they are rarely left with some surplus to spend on goods and services. This is one of the reason why inequality actually lowers the aggregate demand necessary to economic growth.

Secondly, the inequality generated by rent-seeking activities described in the previous paragraph is affecting productivity and economic growth because it is damaging the process of the efficient allocation of resources, one of the pillar of stable and productive economy. This happens because, in general terms, rents generate a redistribution from the majority of society to the so called rent-seekers, and such process of misallocation of resources actually weakens economy. It is often used the image of the pie to describe this effect: the effort to get a larger piece of the pie is not enlarging it, as neoliberals claim when they defend the tax-cut on the rich, rather it represents a neat reduction of the pie. The distortion in the economy given by the activities of rent-seeking occurs because individual, businesses, or corporation are allowed to extract huge amount of wealth and profits without equal returns at the social and real level. This is exactly what happened after the 2008 financial crisis, when bankers were actually rewarded at the expense of the society rather than being suited for having allowed the system to collapse and made lots of people lose their job. Rent-seeking activities, moreover, have a role in affecting the misallocation of human capital. As I will explain later, ordinary people use to emulating the behaviour of the rich to feel worthy and accepted in the society. This state of mind would probably take them to choose a career inside the financial sector and bring inside it innovations and their know-how, rather than putting it in more productive sectors in which making innovations would actually be for the benefit of the society as a whole. The financial sector, as said several times, should be a servant for the market but, during the last 40 years, it has become dominant. The supporters of the financial openness do keep on defending deregulation because it is said to move savings and capitals where they are more needed in order to foster productivity. Yet, this statement is no longer valid because resources are allocated where the expected

financial profits are highest. Usually, it happens where labour is not regulated and so more exploitable, where the activities of rent seeking are less taxed, or where taxation is low, as for the tax heavens. Another reason why the activities of rent seeking actually foster a misallocation of resources is the short-term gains that one can usually achieve throughout the use of the capital market. Financial investments created to maximize profits can be switched quickly and suddenly from one sector to another, without actually considering which is the sector that does need the amount of capital. The activity of rent seeking, in fact, will be directed to where the profit is expected to be higher, and this change of direction can happen even in few hours, given the speed of the current capital market thanks to innovations in the information technology.

Thirdly, inequality reduces the amount of public investments with negative effects mainly on education and medical services. Neoliberals supporters have always defended the role of the private sector as the one and only that could actually foster economic growth because of its major efficiency. What they seem to forget, once again, is that behind a well-functioning private sector lays a well-operating public sector. People with entrepreneurial attitude have the possibility to arise worldwide, but what changes is the roots provided by the intervention of the government in providing suitable laws, infrastructures, institutions, favourable conditions, fostering research and development activities, providing good education, and so on. Without public investments, in fact, private entrepreneurs, a figure so much idealized and sponsored by neoliberals, would not have the possibility to develop their activities or to make their ideas concrete. Investments on education, research and development, or on medical service, help to create a more cohesive society, in which anyone can give his contribution to the common good and enable the economy to flourish. This kind of investments are usually called “public goods”, because once the goods or service are created, they can be used by everyone.

However, the neoliberal dogma sees in the intervention of the government a threat to the well functioning of the market, so that politicians, influenced by the rich, usually decide to cut these kinds of social expenditures, increasing the gap between the already rich and the ordinary people. The more the distribution of wealth will go upwards, the more these social investments will decrease. This is because the better-off are reluctant to spend money on common needs; they rather prefer spending their money in luxury

goods and in goods hat underline their status. They also increase the level of inequality because they usually can afford to buy high quality services, such as education or health care, leaving those who have to rely on government's help behind. What is more, a correlated factor is given by the underinvestment in education. Denying good education to law- or middle-income citizens means to prevent them of the opportunity to contribute in the most efficient possible way to economic growth and productivity, because they can not fully develop their skills and know-how that are generally asked by the job market. Underinvestment in education, in fact, affects the equality of opportunities that a person should have in the society and this is translated in an inefficient use of the most valuable resources to foster productivity and economic growth: people.

On the other hand, underinvestment and expenditure cuts in medical care can cause spread of diseases, or an increase in general depression that in turn are translated in an impossibility to participate to production and badly influence the rest of society. According to a report of the Bank of Greece of 2016, both physical and mental health of Greeks are deteriorating with direct effects on life expectancy. The report states that the suicide rate has increased of 40% between 2010 and 2011; infant mortality increased of almost 50% and the birth rate decreased of 22,1% due to increasing uncertainty about the future and the lack of enough money to grow up a child. Concerning health diseases, especially depression, the rates have increased from 3,3% in 2008 to 12,3% in 2013; even the cases of youth depression have increased from 2,6% in 2009 to 4,7% in 2014. The report stresses the focus also on the rate of people that reduced their productive activities because of chronic diseases, and it has increased of 15% since the beginning of the implementation of austerity and the resulting cuts on social spending concerning medical care. All these data have to be added to the lack of medical assistance in public hospitals that have no funds to cure all the patients and the waiting lists keep on being extended because there is physically no personal to attend those who have to be hospitalized[82]. Another factor that is influencing the deterioration of Greek health conditions is the outbreak of HIV cases because of the increase of injecting drug users. What is more, the cut on institutions committed to HIV-prevention activities coincided

[82] The data come from the report of the Bank of Greece on Monetary Policy of 2015-2016. http://www.bankofgreece.gr/BogEkdoseis/NomPol20152016.pdf#page=20&zoom=auto,-13,727

with a 200% increase in the virus rate. The slogan “austerity kills” has become far more than a simple metaphor[83].

The cuts of public investments in medical care are another example of how policies such as the ones labelled “austerity” can affect economic growth also indirectly, and not just from a mere economic standpoint. If we consider the data about real GDP taken from the OECD, Organization for Economic Co-Operation and Development, it can be noticed that the Greek rate is the lowest in the Euro-area and European Union; not only it is the lowest but it has lowered from 26 454 US$ per capita in 2014 to 26 289 US$ in 2015; the data are more alarming if they are compared to the ones of the Euro Area, which amounted to 40 011US$ per capita in 2014 and increased in 2015 amounting to 41 150US$[84].

Last but not least, it is worth mentioning that inequality does not affect only the pure economic sector in a negative way by lowering growth, but it affects also the sociological sphere of the individual that then turns into dissatisfaction and a consequent lower contribution to the well-being of the society. In culture dominated by the capitalistic system, in fact, money is a symbol for one’s worth; what you earns, what you wears or the car you drive represent your status compared to others, and the rich usually consume not just to meet their basic needs but to highlight their superior position and to take the distance from ordinary people. The pursuit of goods just for recognition or self satisfaction works quite as the consumption of luxury items; it distorts the economy in the sense that the focus is not on what is actually needed but on what is desired by a minority. This process has a direct effect on ordinary citizens: willing to be recognized and to feel worthy in the society, they will try to emulate the attitudes of the rich and their consumer lifestyle, even if they can not afford to do that; what is more, they will probably get indebted to satisfy their desire. The problem is that emulating luxury consumption is misguiding and it prevents ordinary people from focusing on what is really important, such as acquiring skills and knowledge to contribute to real economy and production. Furthermore, there are many researches showing that happiness and satisfaction are not achieved by increases in income; in fact, the accumulation of wealth does not have strong impact on one’s well-being after a

[83] The statement has been made by Oxford professor David Stuckler, expert on the economics of health.
[84] The data are taken from OECD official website.
https://data.oecd.org/gdp/gross-domestic-product-gdp.htm

certain level. What is more important for a happy and productive society is the sense of trust, the cohesiveness of the society, the health, and the solid relationships among others: everything that the neoliberal view of the world is destroying by cutting social expenditures and by pursuing policies that threaten the stability of job positions, increasing anxiety and stress. As a result, it can be said that inequality affects the well-being in general and, as I have mentioned before, the success of an economic system can be proven by the actual well-being of its society. Measuring well-being is not easy and the amount of indicators and variables used to do that are a real proof of the difficulties to understand if a society is happy or not; what is important, however, is that the variable that provokes more changes in the well-being index is inequality: the more equal a society is, the more it tends to be happier[85].

Another factor related to the subjective sphere of the individual is about the motivations that the ordinary people have in order to be productive in the most efficient way. The more they perceive to be treated unequally, the harder will be to motivate them. This is the central focus of the "efficiency wage theory"[86], which claims that how managers and bosses treat their subordinates, including the salaries they are assigned, affects the final productivity.

The individual factors that can affect the amount of final output for a workers are several; among them the one that is most influent in the capitalist societies is the feeling of anxiety caused by the impoverishment of the bottom and the middle of the population. Their worries about an uncertain future in relation with pensions, mortgages, children's education, and so on, switch the energy necessary to an efficient production towards mental anxiety and stress.

The argument of fair wages too can be incorporated in the subjective perceptions of the individuals that affect productivity. If workers, in fact, are constantly submitted to wage-cuts with the excuse to make the business more competitive and, at the same time, they see their superiors to increase their profits, they can feel they are treated unfairly and their willing to be productive or loyal to the company can be negatively affected with consequence on the final economic outcomes.

To sum up, it can be claimed that the major plague concerning western and developed society nowadays is represented mainly by the high rate of unemployment and the

[85] Sayer, "Why we can't afford the rich", 312.
[86] A theory first elaborated by Alfred Marshall, a British economist, in 1895.

subsequent mental attitude that people may assume towards corporations and business with negative implications on productivity. The focus on western countries and especially on Europe is fundamental because, even if inequality has been recognized to be a threat to global economy and sustainability, each country has different histories and therefore different reasons at the base of the increasing rate of inequality. The reasons that inequality is increasing even within the so called “developed countries” or “First World” deserve particular attention because they represent the results of policies designed by technocrats that one expect to be well trained to solve economic problems. We are taught at school that Europe is the cradle of democracy -ironically it is Greece the land in which democracy actually was born-, the continent that achieved many results in equal rights and opportunities throughout important social fights. What we are experiencing today seems an overturning of what characterized Europe throughout history. The greediness of human being is prevailing under the belief in a God that can be called “money”, and our democratic rights seem to have been lost whenever politicians ask ordinary people sacrifices and suffering for a more noble cause that no one seems to understand. As the report of Oxfam stated at the end of its study, a reshaping of economic policies is needed towards a more equal distribution of wealth among countries and within each country, in order to assure a sustainable future to the next generations.

The un-sustainability of the economic system created by neo-liberalism is placed side by side with the climate change, another big threat to our future that needs to be taken into account while thinking about new policies to be implemented. The activities that are increasing inequality are also related to the exploitation of natural resources without thinking that there is no escape from climate change even for the super-rich and their infinite amount of money. The last chapter will focus on how climate change is one of the most dangerous threats for future growth and sustainability beside inequality. The last part will be committed to express possible resolutions needed to change the mechanisms which rule the current society.

Chapter 4: A further threat to sustainability

4.1 Inequality and Climate Change

Talking about the sustainability of the system created by neoliberalism one can not help to mention the argument of climate change. In fact, the World Economic Forum put climate change among the biggest threat to sustainable future, along with inequality, in The Global Risks Report of 2016[87].

The neoliberal version of capitalism needs continuous growth to not collapse but the problem is that the real growth is being jeopardized by the spread of activities of wealth extraction that benefit the already rich and the imposition of austerity policies to key-economies, both increasing inequality and social stability. Economic growth seems the answer for world-wide recovery but its necessity to capitalism to survive creates the warning about climate change, because many of the activities characterized by the short-term profit-seeking view do not consider the impact on the Earth and the revenues assured by coal or oil extraction are far more profitable than investing in renewable resources that represent a quite recent object of study. The cuts on social spending, in fact, refer also to this issue; there should be more investments in researches about renewable and alternative source of energy, for the returns in the long run will overtake for sure the amount of money spent at the beginning, and most important thing this would be an action for the benefit of the whole world, super-rich included. What is most concerning today is that many influential characters of the world economy are denying that such changes are happening because they do not want to lose their profits. I have already explained in the last chapter that the Koch brothers are resolutely opposing the introduction of the carbon tax and they are also indirectly financing institutions made by economists who deny the climate change and who are often called as expertise in television debates in order to influence the public opinion too[88].

However, the scientific community quite agree that the climate change is actually happening and its correlation with economic activities is relevant.

The human activities that most impact the global warming are those that release mainly

[87] The Global Risks Report 2016. http://www3.weforum.org/docs/Media/TheGlobalRisksReport2016.pdf
[88] The situation described is peculiar of the United States.

CO2 and other greenhouse gases in the atmosphere, and the rate of warming during the last 40 years is faster than any other time in history[89] [90]. The CO2 emissions, after staying in the atmosphere for a period that can last until 100 years, are absorbed by plants and oceans. At the present time, the CO2 that can be absorbed by the planet is just a half of the total emissions that are being produced, and the first factor that relates the climate change with the economic system is that the rainforests are continuously being cut down by corporations to implement more profitable productions, such as the one of palm oil that is mainly destroying the rainforest in Indonesia. In addition, a further factor that relates the climate change with inequality is that the rich with their wasteful consumption, and therefore wasteful production, are said to be responsible for the 50% of the global greenhouse gas emissions[91].

Climate change does not relate only directly with those policies that are increasing inequality and therefore sustainability, but also indirectly. In fact, as a consequence of climate change and global warming, it is possible to observe uncommon weather conditions affecting various side of the Earth. The catastrophic events caused by the climate change can provoke impactful phenomena such as mass migration or food shortage, that in turn will widen the gap of inequality, because it is usually the poorest communities which suffer most of the climate change, for they have not enough technological means to use in order to adapt or contrast the outcomes. What is more, people under threat can become unstable and it can increase the rate of criminality, or the rise of political tensions up to resulting in wars for resources.

The awareness that the climate change is a real threat to the future of the Planet has been translated into international treaties and summits discussing reductions of the emissions. The last United Nation Climate Change Conference was held in Paris in 2015 and gave birth to the Paris Agreement, signed by 174 countries committed to set the limit of the global warming on less than 2 °C. It has been a real important achievement, especially for the countries most responsible of greenhouse gas emissions such as China and United States, yet these agreements take into consideration countries as a whole and not people. In fact, a study conducted by Stephen Pacala, a professor of

[89] The temperature has increased of 0.87 °C since 1884 when the industrial revolution took place. It seems not so much but it has to be considered that in 2013 the increase was of 0.65 °C. The speed on which the global warming is occurring is the most alarming datum.

[90] The data are available on the official NASA website. http://climate.nasa.gov/

[91] Sayer, "Why we can't afford the rich", 323.

Ecology in Princeton University, shows that the biggest emitters are usually the super-rich, whether they live in a relative poor country or a rich country. Furthermore, the riches 500 million people, about the 7% of the global population, are responsible for 50% of the total greenhouse gas emissions[92]. Here, in fact, stands the connection point between increasing inequality and climate change. As the rich get richer, in fact, their emissions increase especially due to their higher mobility mainly by using air flights.

Yet, there is further connection among neo-liberalism, climate change and rising inequality; throughout the dissertation, it has been clarifies how the implementation of a strict neoliberal agenda and a deep belief in this dogma has led to the 2008 financial crisis and the subsequent recession of the world economy. Unemployment in fact has depressed demand that in turn has slowed down the production. Yet, in the same time the rich have become richer because of rent-seeking activities and exploitation of the debt burden of the States; furthermore, austerity policies are worsening the situation especially of the European Union that represent the second biggest economy in the world. The only solution for a restart of the economy seems to be represented by policies of downward redistribution, such as a progressive taxation system that will allow ordinary people to stimulate demand and therefore give a push to economic growth; the latter, in fact, represents the only answers to the crisis of the system, as capitalism needs continuous growth to survive. This dependence on growth has allowed the great transformations and dynamism of the processes that has characterized the industrialization, the innovation in technology and transports that together had constituted the frame for globalization. The continuous growth is necessary because workers inside the capitalist system have to produce not only for their returns in the form of salary, but also to cover the costs of production and delivery, and to make enough profit for the owner of the business, the shareholders, money-lenders, and all the people involved with capital investments; meanwhile, the competition embedded in the free-market system pushes the firms to produce even more without increasing the number of the employees. Yet, the growth necessary to bring the system in equilibrium, especially in the richest countries, can not be sustained by the Earth and will influence the global warming endangering the future of the entire Planet. This vicious cycle is called "*diabolical double crisis*" by Andrew Sayer, author of the book "why we can't

[92] Sayer, "Why we can't afford the rich", 323.

afford the rich", in which he explains why inequality and the rise of the rich is no longer sustainable in the long-run. It is a double crisis because the resolution of one crisis will inevitably cause the worsening of the other. The author proposes an interesting point of view about how to solve the double crisis problem, and besides forms of redistribution of income and wealth from the top to the bottom, he talks about *de-globalization*. It seems quite outrageous to reverse a process that has become almost uncontrollable because of its speed and its definitive transformations, but it is a possible solution if we want a more equal society in which anyone can enjoy the same opportunities and if we want our children to live in a dignified way with no worries. The starting point of the author for his analysis comes from the certainty that the problem of emissions is given mainly by the carbon-based fuel of means of transport that allow the movement of goods in the interconnected globalized countries and that allow the most better-off people to travel towards different destinations with high frequency. Unless there will not be a switch to low-carbon transportation, there should be an increase in local production and local economy that will lead to several advantages.

First of all, a more localized economy is thought to be more aware and careful about the climate impact of its activities because potential damages would be more visible and would affect personally those who produce. The interconnected globalized system did bring many benefits, but it means that also the negative externalities produced by the economy are spread all over the world and not just to the local producer of such externalities. The most obvious example is, in fact, given by pollution; the richest countries are responsible for the amount of emissions that are in turn damaging even the poorest local economies. A reduction of transportation and a shorter supply chain would then mean the possibility to raise job positions at the local scale; what multinationals had transferred in low-cost working areas should return in the country of origin and make available jobs. As a result, the goods and the services may result more expensive but the environment will benefit of such a choice.

Secondly, the highest amount of emissions we are responsible for are 'indirect', in the sense that they come from the consumer lifestyle we are used to. For instance, to maintain and sustain the consumptive lifestyle of the United States in the long-run, there would need at least 4 Earths. It is obvious that something has to change and particularly the needs of a reduction of our ecological footprint. Easy-understanding examples of

how our consumption affect the carbon-print have been explained by the recent National Geographic documentary "before the flood" about the climate change. For instance, the huge consumption of meat, especially beef, in the western countries have a strong impact on emissions: every kilogram of beef served is equivalent to eight kilograms of CO2 emitted; so switching to a low-meat consumption diet would actually reduce the greenhouse gas emissions. Another warning data relative to food is about the amount of wasted food for each year, that is equivalent to about three billions tons of CO2[93]. Switching to a more localized economy could increase the awareness of the amount of food that we usually waste; furthermore, it should become a trend to ask for the "doggy bag" at the end of a meal in a restaurant if we do not finish all. Restaurants and supermarkets are, in fact, the most responsible for food waste. Of course, the intervention of the government in making laws to avoid this kind of waste are fundamental, and one of the most recent example has occurred in France with a law that force big supermarket chains to donate unsold food to voluntary associations that will in turn distribute it to the needy.

Thirdly, originating from the study already mentioned that an increase in wealth after a certain point does not coincide with an increase of well-being, the author states that redistribution policies will not be translated with poorer lives, yet they will bring all the benefits of the perception of living in equal societies and discover the strongest power of public goods and collective actions.

Of course, the individual contribution is important but the greater effort should come from the big companies and corporations dealing with energy; Fortune magazine, a business magazine, each year draws up the list of the 500 largest companies in the world, and among the first ten positions in 2016, six were occupied by corporations dealing with petroleum refining, or energy in general[94]. Considering plutocracy, the neoliberal agenda are serving the interests of such companies that are responsible for the majority of carbon emissions; the problem emerges because they have such a power in influencing governments that they can even come to state that climate change and global warning do not exist and each measure against oil extraction or activities concerning polluting outcomes are irrelevant and they just slow down production

[93] The documentary can be found online in the National Geographic official website. http://channel.nationalgeographic.com/before-the-flood/

[94] The complete list is available on Fortune website. http://beta.fortune.com/global500/

undermining economic growth. Here comes the greater connection between climate change and increasing inequalities. It is, in fact, the over-incurring debt or the other activities of rent-seeking that the rich usually do that are literally "mortgaging" the future of next generations and the one of the planet; for instance, it is reported by Sayer that Brazil is pushing the deforestation of the Amazon to pay its foreign debts[95].

The interconnection between inequality and carbon emissions emerges also through the "sacrifice" argument. As said before, the individual contribution from each of us to reduce our daily carbon footprint is fundamental, and especially in the wealthier countries it can imply greater sacrifice; yet, the awareness that it is just us contributing to lowering emission whereas the rich continue their high-impact life can influence our behaviour and we will probably be less willing to cooperate. As explained in the previous chapter, the greediness of the rich and their desire to maintain their status quo distant from the one of ordinary people, constitute a great obstacle to the contribution of lowering carbon footprint. As a consequence, a redistributive set of policies is necessary at the base if the mental approach to change the individual lifestyle is to be made; equality results to be the *condicio sine qua non* the switch to a green economy is to be adopted. Equal societies are more predisposed to cooperate and to help each others in creating public goods and reaching public benefits for everyone, included quitting some activities that imply high-carbon emissions. Sayer stresses the focus of its final analysis to "*an environmental argument for equality: no one has the right to more of the earth's resources, including its capacity to re-absorb CO2, than the total of those resources divided by the world's population.*"[96]

Of course, the focus now switches on how to create more equal society and leave behind the neoliberal dream of individuals made self-entrepreneurs thinking on their personal well-being that can be reached exploiting the free-market.

[95] Sayer, "Why we can't afford the rich", 337.
[96] Ibid., 341.

4.1 A Change is Possible

The stress on the argument of competition within the neoliberal system let money and how to get it more and more to be central in everyday life. Corporations' owners, in fact, survive just by making profits and accumulating money. It is true that competition may foster innovation and improve the standard of living of the entire society, but its duty has been misconceived by those in power and it eventually translated into cutting wages, cutting taxes to attract rich, or exploiting favourable conditions in countries with less regulation on waste, labour, and fiscal matters. The efficiency that the market should self-provide has actually led to cutting pay and increasing inequality, so that it can be assumed that neoliberalism is supportive to the already reach and it aims to protect their interests; in fact such outcomes are efficient to them and not to most of the society. On the other hand, seeking "efficiency" in the public sector through the pursuit of austerity policies can lower the service provided as it happened in Greece, for instance, in the public medical sector, in which people lack of medical assistance due to the lack of funds.

Neoliberal supporters should change their focus from pure economic growth to equality; in fact, a growth based on equal opportunities means that everyone can contribute to the well-being of the society and the government should provide the circumstances under which this come to be possible; for instance, avoiding food shortages and providing suitable shelters and medical care to everyone; assuring freedom of speech and freedom from criminality and violence, both in the private and in the public environment; assuring high quality education and the possibility to participate in the political debates and give personal contributions to the decisions made. Reaching equality in every aspect of our life not only means great contribution to the well-being, but also it allows to the individual to develop a personal and unique ability, contributing to the heterogeneity of the society. The central position given to the *homo oeconomicus* has created greedy individuals looking for their own well-being that can be at the expense of the other; what is more, it has generated that feeling of self-disappointment if one is not able to reach an important job position in a big business and that feeling of inferiority that characterizes low-income recipients. Most of people is not following their dreams, rather they are forced to follow the one and only path that will give them success,

money, and respect from the society, even if it means to renounce to the personal attitude and being unsatisfied.

A more equal society does not come from nothing, but it requires a strong government able to not let himself being influenced by plutocrats and to implement regulations and distributive policies. Once again, Sayer comes in help by thinking and proposing actions aimed to this final object. Alternative policies of redistribution are still an experiment and there is much more of theories than practices. It is worth mentioning one of the experiments that is becoming popular among some European countries, that is the basic income, or citizen's' wage one. It is about giving a monthly amount of income to citizens under some conditions decided by the different governments based on their different welfare system. It can be guaranteed to the poorest family, as it happened in Livorno, Italy; or indiscriminately to some "test subject" unemployed citizens, as it happened in Finland. The reasons that are pushing the use of basic income in Europe are principally to fight unemployment, both due to austerity and to the forecast of an increase in automation within firms and reduce the poverty line that has risen after the euro crisis. The results until now have not shown the scenario that neoliberals were expecting, that is a less willing to compete for finding a job and a more dependency on welfare system and government subsidies, and if managed well it could represent one of the most feasible policy to be implemented and to give positive results in the short-term.

The others solutions proposed by the author are more complex to implement because they directly attack the system and its function; in fact, he has already talked about reversing a process that yet today is difficult to manage and control that is globalization. Yet, it is worth mentioning just to give an idea and to give the possibility to people to at least think about them.

The first thing that needs to be hit with specific policies is the mechanism of rent, which allows the asset owners to enrich himself just by owning something that other people lack of. As already mentioned in the last chapter while talking about a fair taxation system, the taxation of land could be a first step towards more equal relationships. In fact, the land does not change its volume throughout time and a fixed tax would mean that the owners will have more responsibility on how to manage its property. This compromise is far more feasible than extreme proposals such as nationalizing land and territory.

The second argument that the author considers concerns the high interest rates applied to credit money. The problem, in fact, is not in allowing credit per se; credit has always been necessary to the development of the capitalist economy because it allowed businesses and firms to invest in production and make several improvement in real efficiency and allocation of resources. The problem is that, nowadays, private banks are literally over-lending for consumption and speculation in the private sector, and to repay the fiscal debt as far as the public sector is concerned. The high rates of interest applied distort the economy in the sense the investment is not made anymore in productive activities that requires time before giving the returns, to the financial sector in which short-term profit is likely possible. What is more, the over-lending by private banks on property and financial assets, along with the deregulation and volatility of the sector, usually fuel asset bubbles that once exploding put in jeopardy the entire economic system. What is more, if the risk-taking that each investment presupposes would be shared by both lenders and borrowers, banks will be more responsible in providing clear information about the capital market and will be more concerned about where the money comes from and where they are heading. The imperative "*too big to fail*" has, in fact, allowed private banks and financial institutions to transfer the risk entirely on the borrower and were able even to sell toxic bonds, with the rating agencies supporting them. The last financial crisis was eventually the result of the zero-responsibility of such institutions in bearing extreme risk, and, in fact, those who lost more were the savers and ordinary people because the banks were bailed out by governments.

The third issue that should need additional reforms to stop wealth from being distributed unequally is the one about the profit generated by the ownership of business. That who decide how the revenues created by the sale of goods or services should be used is the owner of the company, whereas the workers who actually produced the final output has no voice on it and they are usually underpaid. The problem rises when shareholders are no more than businessmen, traders or brokers that buy some shares of a certain company just to speculate on it and gain more profit, without being concerned of the production and without contributing to innovation or to real investments in the firm. The rise of the so called "shareholder movement" is indicative of how a system based on neoliberal beliefs has damaged the real economy for the benefit of the greedy rich. There should be regulation of the power of such figures and their involvement and

accountability in the real business trend, making workers more participants and aligning their interests with the one of the organization, to create an harmonious working environment from which production will take benefit.

What comes next is the argument about finance and its mandatory regulation, given the fact that it's volatility has been the main cause of the last financial crisis.

The banking system should be invited to return to its primary role of safeguarding savings and directing them to where they are more needed, and provide credit to families and business so that it can be used to productive purposes and not just for consumption or speculation; banks should actually return also to manage risk rather than trying to avoid it through distortive activities such as securitization[97] and leveraging[98] that played a key role in the 2008 financial crisis. What is more, complex financial products[99] should be allowed to use only if it can be proved that their effects will have positive outcomes for the benefit of the society as a whole. In addition, restriction on free capital flow along with businesses public accountability could reduce the possibility of key firms to move their capital outside one country to avoid taxation or for other reasons mentioned in the previous chapter connected to the plutocratic power influencing governments; this should, in fact, also diminish the power of the rich in getting suitable policies for their own interests. Public accountability should also improve the mechanism to control tax avoidance and the capital flow towards tax havens; if a firm needs to record all its movements "country-by-country", strategies of tax avoidance would become more difficult to realize. Finally, it should be established a transaction tax in the financial sector in order to reduce mass speculation, control volatility and avoid the creation of bubbles. This tax is said to hit most probably those financial institutions implied in high frequency trading and the revenues that such tax would yield will amount on billions, which could be later used for green investments or empowering of low- and middle-income class.

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[97] Securitization represents a key instrument in the financial sector and debt creation. It is the usage to literally pack together loans, in the form of mortgages and credit card debt, and sell them as a unique asset through 'special purpose vehicles' (SPVs) with the promise of high returns on interest payments. To know more, I referred to the online lessons on finance by the IMF on the IMF website. http://www.imf.org/external/pubs/ft/fandd/2008/09/pdf/basics.pdf

[98] Leveraging is an extreme version of speculation. It is the usage to practice bigger bets by using borrowed money further increasing risk. More on that can be found in Sayer, "Why we can't afford the rich", 114-115.

[99] They are financial instruments in which nobody knows who is accountable for bearing the risk responsibility and the relationship between lenders and borrowers is not transparent.

One of the last issue taken into account in the proposal of a more equal is of course the one of taxation. Besides the already explained carbon tax on those who work with the extraction of fossil fuels, a progressive taxation system should be more efficient and with distributional effects from the top-down; progressive, in fact, means that the richest will pay tax on their wealth, with the rate increasing as they get richer. If such a taxation would be spread on global scale, there will be much more control on activities on wealth extraction and they would be highly reduced. Furthermore, another taxation proposed to control the flux of money from the bottom to the top is the so called "exceptional tax"[100]; it is a tax on the private capital used to pay off sovereign debt and it would represent one of the most efficient method to release the slavery relationship between government and bondholders, so that the latter could fund public expenditure independently and without transferring the risk entirely on government. To understand the slavery relationship between government and bondholders, it is useful once again the example of Greece.

The deregulation of finance and its activity of over-lending to the Greek government to fund mainly its fiscal stabilization enter the Eurozone in 2001 and to fund the Olympic games in 2004 led to worsening the financial crisis already perceived in 2007, and a risk of default of Greek government worried the banks which stopped suddenly their capital flow to the country. On the contrary, the ECB along with the IMF and the European Commission forced the government to take on more debt to repay private banks – mainly German and French to allow Greece to buy their products, mainly arms- imposed austerity to reduce the deficit and to make sure that the repayment could actually occur. As a result, it has been reported that if Greece pays its debt entirely, the ECB and members national banks are to receive respectively €10 billion and €22 billion[101], which in turn will go to the respectively bondholders. As already said, the policies imposed and the current environment favours the creditor and put the burden entirely on the debtor that is already in an inferior position. A tax on such capital used to fund sovereign debt, therefore, should contribute to give more power to the government on matters of fiscal and monetary policies and to avoid of being submitted by a clear example of plutocracy.

[100] Sayer, "Why we can't afford the rich", 357.
[101] Ibid., 371.

Last but not least, further reforms should be asked about the environmental argument. Not only a carbon tax is needed, but also massive public expenditure on renewable energy and new sources of energy in general to gradually switch to low-carbon impact and try to preserve the Planet from self-destruction. This issue is very delicate especially in the countries most hit by austerity; in fact, public expenditure on research and development usually comes after the basic welfare needs, such as education or health care. Austerity hits the most basic need of society and investments in research on new source of energy are the last concern for those governments. Furthermore, a more restrict control on finance as previously wished for would also affect and restrict the over-lending by banks for credit to consumption, so that the consumptive attitude that is helping to increase the emission of CO2 will be reduced. Nationalization of major energy companies, therefore, would allow a more direct control by governments on emissions and on switching investment from fossil fuels based innovation to renewable; this would translate in a more efficient allocation of available resources rather than leaving such important decisions in the hand of shareholders interested just in mere profit.

The desirable reforms mentioned above are just the starting point to think about a change that will benefit the entire society as a whole by lowering inequality and at the same time making an attempt in reducing the global warming. Of course it is necessary the contribution of everyone, and a good attitude showed firstly by the super-rich and consequently by the direction of “good government” would help even the worse-off to follow their path, exactly as they are doing in emulating the lifestyle of the rich that they can not materially afford. Reaching equality would also mean a feeling of cohesion among individuals throughout the world, and unity is usually said to represent strength.

Conclusions

The neoliberal dream desires a more and more interconnected and globalized society where individuals can use the means available in a free-market directed by perfect competition regime to reach their well-being which in turn will benefit the society as a whole. The stress on the individual freedom promoted by both the major exponents of this ideology, Milton Friedman and Friedrich von Hayek, both praised with the Nobel Prize in economics, has been translated into the freedom of exploiting the limited resources of the Earth by those who could afford it to the expense of the majority of the population. However, it would be a mistake to associate capitalism with neo-liberalism because the first has characterized the major economies since the first industrial revolution and it has actually brought many positive outcomes that we are still enjoying. In fact, the incessant research of expansion embedded in capitalist systems has brought to the continual creation of the new market that translated in the process called "globalization". Globalization actually improved the connection and cooperation between countries; it has, for instance, cut down the costs of transportation, and allow people to travel far more easily than it happened in previous era; it has allowed to goods to be exported and imported with rigorous rapidity and it has provided an exchange of know-how fundamental for the current standard of living. In fact, especially the innovation in technology has allowed many discoveries that have actually improved the well-being for the most, particularly in medical branches and food provision and eventually the global poverty rate, which has decreased. It would be a mistake and a stubborn decision to omit the advantages that such a system has actually delivered. The problem surged when the neo-liberal interpretation of such processes came to be dominant and to be thought as the only way to keep on expanding and creating necessary growth. The spread of such ideology, in fact, became to be known and to be experimented when the businesses seeking new markets to maintain their standard in economic growth began to feel threatened by the intervention of a government in controlling the capital fluxes. This first happened in Latin America, where major north American corporation earned their highest profits and in 1970 began to perceive their losses as a fault of the intervention of the government in nationalizing key industrial sector. Money was already the first worries of greedy businessman who wanted more

and more and this is when neoliberal thinkers “seized the day” and came into help by spreading their ideas of a deregulated market without the presence of any government audit to guarantee economic growth and stability. Neo-liberalism was born, in fact, in defence of corporations’ interests and went on evolving maintaining this side of the formation. Even if its first concrete experiment in Chile was an actual disaster, it was depicted as a true miracle and the neoliberals’ moment of glory finally came when the presidents of the two major economies of the time, Ronald Reagan for the US and Margaret Thatcher for the UK began to follow advice from neoliberal think-tank to shape their systems. Massive privatizations, cuts on social welfare and dismantlement of labour unions created the discrepancy between company owners, the rich, and the ordinary workers or employees, or better yet, most of people, and such policies, the key features of neo-liberalism, gave actually power to those super rich who could now influence governments to take decisions to favour their interests, a mechanism called “plutocracy”.

The totality composed by the businessmen greed looking for profit in literally each corner of the world, the interconnection created by the globalization process and the role of the governments submitted to the will of the rich, has created the base for the financial sector to expand until a point in which it became uncontrollable. If at the beginning, with the word financial sector it could have been identified with the role of the banks in safeguarding savings and granting credit money addressed to productive investments, nowadays it is a set of complex digitalized operations that allow the rich to extract wealth rather than creating by simply moving high amounts of virtual money to where the profit is thought to be the greatest, without really thinking of where the money is more needed and where it could provide an efficient production. The financial sector is in fact the first responsible for the last financial crisis occurred in 2008, especially the major role was played by the ability of the capital market to create huge amount of debt both in the private and in the public sector. The victims were not only ordinary private savers who did not realize that the so called investment banks were gambling with their money, but also governments that based their growth on continuous indebtedness.

Deep belief in neoliberal ideas were also at the base of the creation of the European Union, a political and economic project aiming to a more integrated market in which

goods, services and capital could flow without many restriction. Promoter of the currency union did not think about the economic differences within different countries and the first obstacle to pass represented by the crisis has shown all its flaws and its central lack of governance which did not allow a prompt recovery, but actually created a double-dip recession. When the financial crisis passed through the Atlantic Ocean and quickly reached Europe –thanks to globalized networks- it was transformed in a debt crisis, or euro crisis depending on the point of view. Debt crisis because national banks, without a strong control of the centralized European Central Bank which was committed only to control inflation, were over-lending to governments, and when the crisis hit, they decided to freeze their capital flux towards such governments due to fear of insolvency because of the high rate of debt they had reached. Concerning the other label that the European crisis assumed, which is the euro crisis, it was because the monetary union and its characteristics, such as fixed exchange rates, did not allow to the different economies to adjust in the traditional way. Other policies needed to be thought to stimulate the economy and, as a consequence, deep believers in the neoliberal dogma proposed and actually implemented policies that protected the interests of the creditors –the rich- at the expense of ordinary people. Following the precise features of the ideology, it has been thought about cutting social expenditures mainly on welfare system –one of the way to lower the intervention of the government in economics- and raise taxes on low- and middle-income citizens –usually workers-, whereas taxes on corporations and on the rich in general were cut. These policies are explicitly made to reduce the fiscal deficit and, therefore, allow the indebted countries to repay the debts plus interests. Not surprisingly, these policies were mainly sponsored by the richest countries, whose banks and private bondholders were keeping the debt of the poorest countries. Such policies take the name of “austerity” and they are the direct cause of the double economic recessions that hit the weaker countries of the South Europe; in fact, the forced implementation of such policies, often sponsored with strong emphasis and with a sort of blackmailing nuance, has increased the rate of unemployment, especially the youth one, that in turn depressed the aggregate demand necessary to stimulate the economy. Increasing level unemployment requires subsidies and increasing expenditures from the government to provide the basic needs to those who are left without an income, yet what happened with austerity and the cut to social spending,

especially in health care, caused the society to become sicker and sicker, both in physical and psychological term. A system based on neoliberal certainties that tries to face the intrinsic crisis-prone nature of capitalism using a strict neoliberal agenda has led to an extreme redistribution of wealth from ordinary people who basically support in the form of interests and unearned income to those at the top who own assets and can afford to hand out credit; it all has led to a deeply erosion of democratic rights in which each person should have the right to live with dignity, to have the same opportunities and to make his voice counts; power is not, in fact, in the hand of the people but in the hidden hand of the super-rich. May the "invisible hand" of the market promoted by Adam Smith actually refer to plutocracy?

The self reliant *homo oeconomicus* promoted by neoliberalism has actually become a dependent individual on the few of those who control money; in the same way, governments become dependent on those institutions that lend them money, so that they rather prefer taxing the poorer than those who owns their debt.

The vicious cycle of a double-dip recession caused by the mechanisms described above, saw its final portion in increasing inequality, one of the major threats of the global sustainability recognized by the world leaders, besides climate change. Inequality, in fact, affects growth with downturn effects on economics, such as the decrease in aggregate demand, and on the individual sphere, such as the inability to give the most contribution possible to productivity because of mental sickness or physical debilitations. However, the challenge to inequality to assure a sustainable future to next generations, inevitably faces the problem of climate change and global warming; In fact, the answer to inequality is with no doubt, the continuous growth to stimulate the economy and to keep on bringing benefits to each class level within the single countries and around the world. But as the economic growth needed and based its development on fossil fuel emissions, the scientific community is now warning us to change and switch our consumptive lifestyle to a low carbon emissions footprint, otherwise the global warming will destroy the planet and our lives, no matter if rich or poor. Filling the gap between rich and poor is of course the most evident solution, as the super-rich are responsible of the majority of emissions and the biggest corporations in the labor-world within activities of refining petroleum; but the proposals and the experiments to reach this objective need to take into account how much they are going to influence the

climate change. Not only monetary policies are needed in order to redistribute the already existing wealth from the top to the bottom, but also a reinforcement of the role of the governments who have the task to invest in research and development in renewable energy and alternative natural resources. I might come across as an idealistic, but I do think that what the global society needs the most today is to re-valueuate the sense of community and cooperation in a human sense. It is quite a few years that we talk about the "global community", but it refers only to internet and virtual connections. I think that reducing inequality would allow us to rethink to ourselves as a *global human community* and, as a consequence, cooperate with common efforts to fight climate change and reduce our gas emissions in order to save the Planet and guarantee to our children and grandchildren a decent future. Instead of imposing austerity, big institutions should focus on investments in ONG or other organizations committed to empowering people, especially in the poor countries to raise awareness about their power; whereas for the rich countries, investments should focus on restoring full employment and providing equal opportunities to everyone to emerge and to contribute to the well-being of societies. Different contexts require different approaches but I do think that a future change is possible thanks to the efforts of the ones who truly believe that the ordinary system created by neoliberalism is no longer sustainable; it seems that a glimmer of hope is possible because one of the most important international institution committed to economic stability, the International Monetary Fund, has finally recognized the impossibility to carry on a system based on financial volatility and austerity regimes creating inequality.

My dissertation did not have the presumption to critic *ex-ante* neo-liberalism, neither it has proposed analytical alternatives with possible outcomes. Since I realized during the last two academic years that most people around me take for granted the system they are living in and they do not even know how it has been shaped and how it actually influences their/our everyday life, I wanted to shed light on it, because I think that if we want to change, *and we must change*, we firstly have to know how the current world is actually working. What is more, the spread of social network and the freedom of speech given to each person was another factor that made me realize that people do not know how and when our society has arrived to this status-quo, and that they accept it as something external and independent from their control. By explaining how neo-

liberalism actually spread, how it influenced everyday policies, especially in Europe, and the mechanism that it involves, I wanted to clarify that the system we are living in today is not something independent and uncontrollable but it is something that has been planned by people like us. The rich need ordinary people like us more than what we think, from the simplest activity of buying multinational products to more complex ones such as requesting mortgages to banks; once becoming aware of this, we can really fight for a more equal and a different slant on life-view in general.

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