

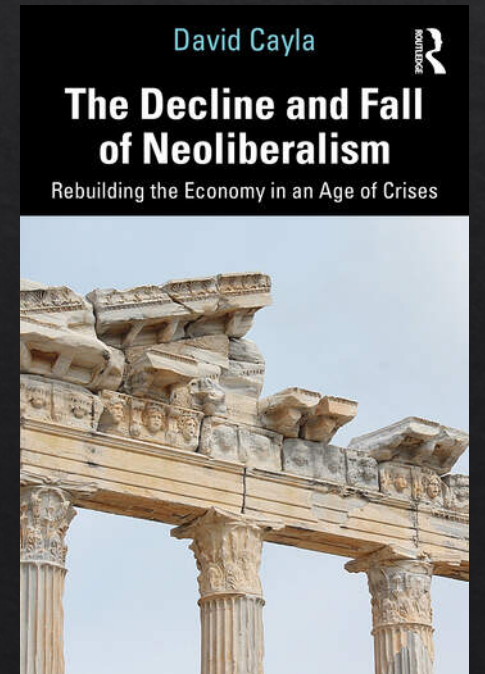
An Agenda for a Democratic Economy

ASSA 2024 – AFEE Session

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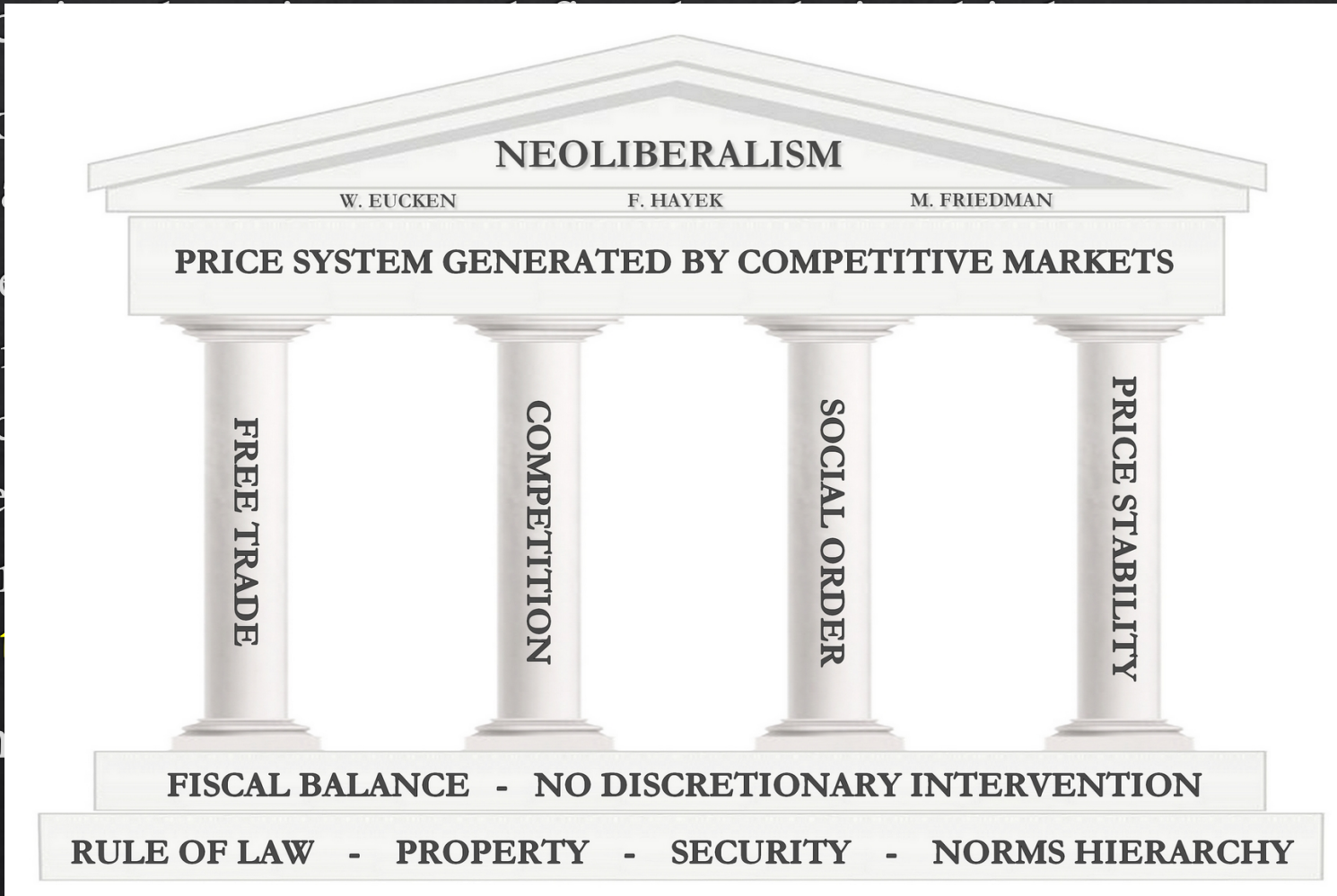


Defining neoliberalism

- ◇ A doctrine that aims to redefine the relationship between state and market.
- ◇ Unlike "classical" liberals, neoliberals believe that the market is not natural and can only function properly within a particular institutional framework.
 - The monetary stability must be backed by the state.
 - Competition must be supervised by dedicated authorities.
 - Social order must be maintained by a minimal redistribution policy.
 - Free trade and free movement of capital must be enforced.
- ◇ The role of the market is to **establish prices and create a system of incentives to coordinate social behavior** (Mises 1920, 1922; Hayek 1945).
- ◇ The market is less a place of **exchange** than a system of **valuation**.

Defining neoliberalism

- ◆ A doctrine of free trade and free market.
- ◆ Unlike classical liberalism, neoliberalism is not "natural" or "self-evident" framework.
- ◆ The neoliberal framework is a system of ideas (Hayek 1945).
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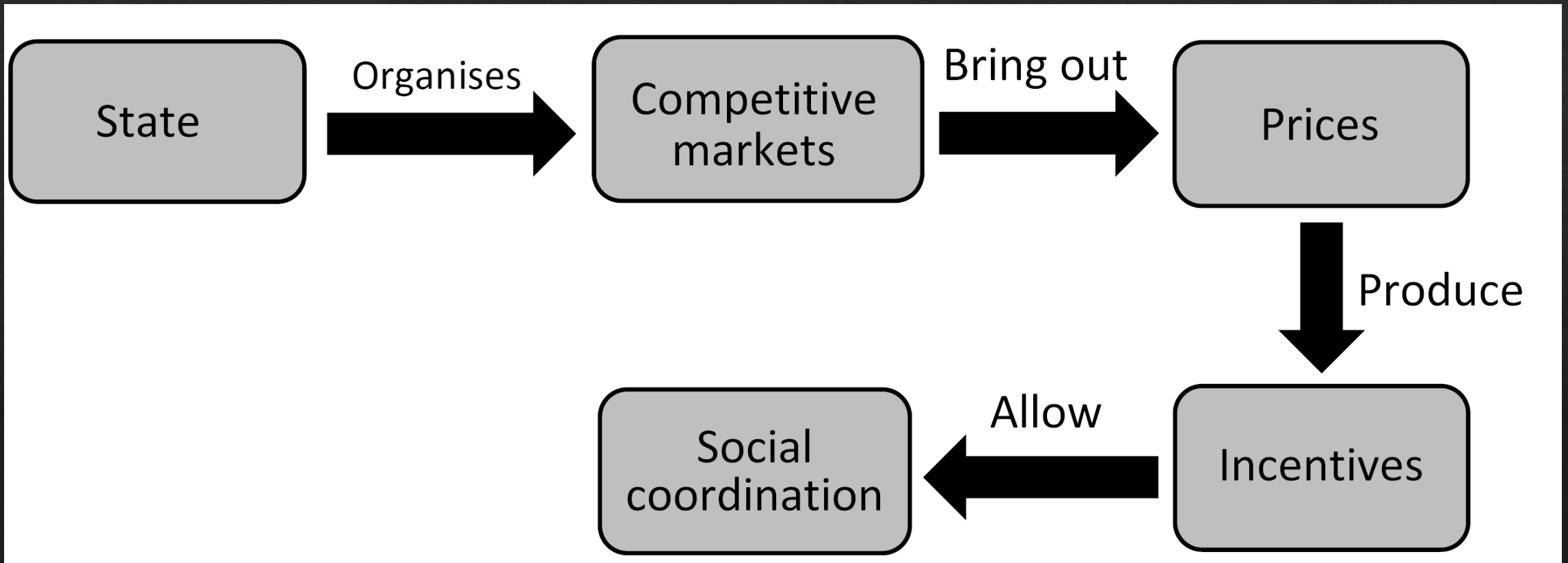


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Institutions in the neoliberal framework

- ◇ Many neoliberals have thought about institutions, especially German and Austrian scholars (Eucken, Röpke, Hayek...)
- ◇ A definition proposal: **institutions are social mechanisms that persist over time and coordinate individual behavior.**
 - Formal / legal institutions: the law, the state, the church, universities, companies, associations, etc.
 - Informal / cultural institutions : language, beliefs, shared representations, etc..
 - Mixt institutions: religions, family, nation, markets, etc.
- ◇ The institutional nature of markets is based on two functions.
 - It is a place that **organizes exchanges** (traditional role).
 - It is a place where **value is defined** (neoliberal conception).
 - Sometimes, these two functions contradict themselves: it may be more efficient to adapt the price to the buyer in order to maximize the number of exchanges. But then, the value of the commodity becomes uncertain.

The neoliberal conception of markets



Why markets are not always relevant: lessons from the 2007 financial crisis

- ◆ The valuation principle according to Fama (1970):
 - Deregulation.
 - Enlargement.
 - Securitization.

- ◆ The 2007 financial crisis: the inability for markets to establish prices.
 - The BNP-Paribas press release of Aug 2007.
 - The problem with the Mark to Market principle.
 - The way out: the prices given by the Treasury (1st Paulson plan) and the Federal reserve.

Why markets are not always relevant: lessons from the 2007 financial crisis

- ◇ The valuation principle according to Fama (1970):

- D The primary role of the capital market is allocation of ownership of the
- E economy's capital stock. In general terms, the ideal is a market in which
- S prices provide accurate signals for resource allocation: that is, a market in which firms can make production-investment decisions, and investors can choose among the securities that represent ownership of firms' activities under the assumption that security prices at any time "fully reflect" all available information. A market in which prices always "fully reflect" available information is called "efficient."

(Fama 1970: 383) ve.

Why markets are not always relevant: lessons from the 2007 financial crisis

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Why markets are not always relevant: lessons

BNP Paribas Investment Partners temporarily suspends the calculation of the Net Asset Value of the following funds: Parvest Dynamic ABS, BNP Paribas ABS EURIBOR and BNP Paribas ABS EONIA

Published on 09.08.2007

The complete evaporation of liquidity in certain market segments of the US securitisation market has made it impossible to value certain assets fairly regardless of their quality or credit rating. The situation is such that it is no longer possible to value fairly the underlying US ABS assets in the three above-mentioned funds. We are therefore unable to calculate a reliable net asset value ("NAV") for the funds.

In order to protect the interests and ensure the equal treatment of our investors, during these exceptional times, BNP Paribas Investment Partners has decided to temporarily suspend the calculation of the net asset value as well as subscriptions/redemptions, in strict compliance with regulations, for the following funds:

- Parvest Dynamic ABS effective 7 August 2007, 3pm (Luxembourg time)
- BNP Paribas ABS Euribor and BNP Paribas ABS Eonia effective 7 August 2007, 1pm (Paris time)

The valuation of these funds and the issue/redemption process will resume as soon as liquidity returns to the market allowing NAV to be calculated.

In the continued absence of liquidity, additional information on the envisaged measures will be communicated to investors in these funds within one month of today.

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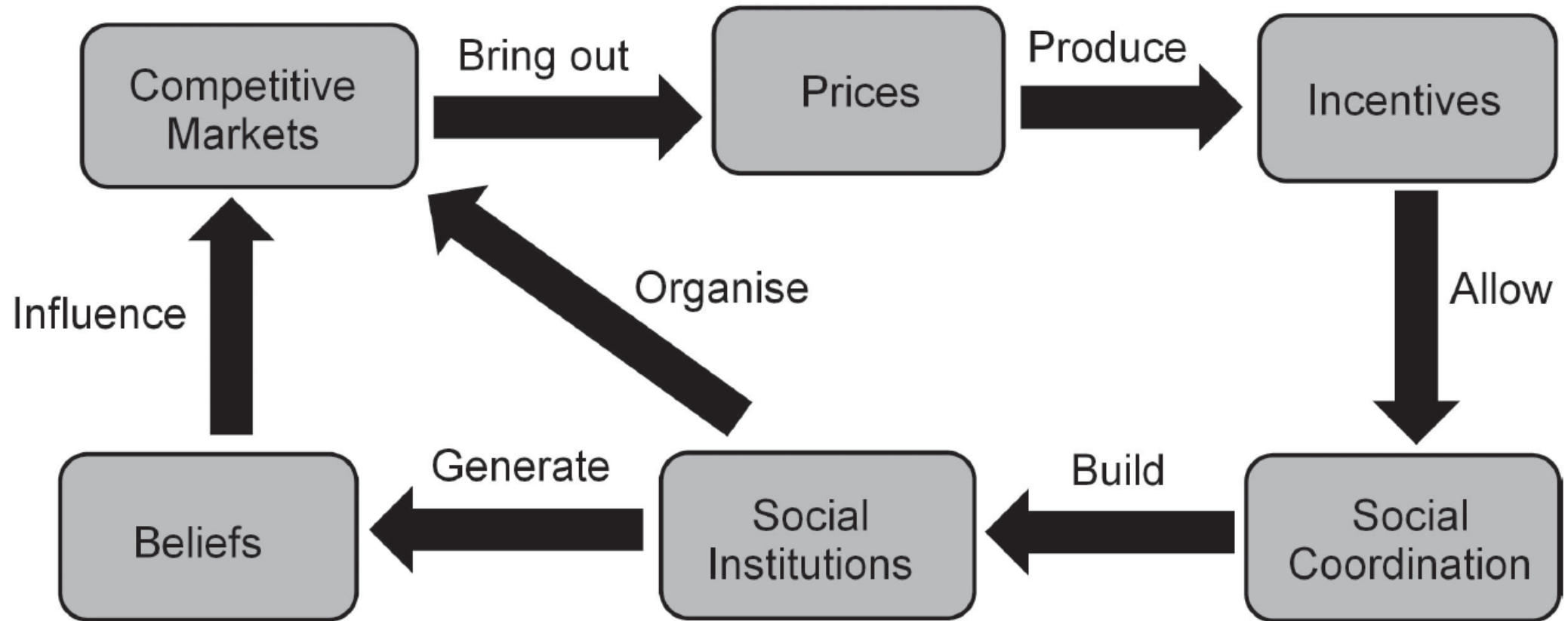
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Price markets do not process information but beliefs that are socially built

- ◇ Market prices are conventions (Keynes 1936), chap. 12)
 - Market actors are unable to evaluate the long-term returns of productive assets.
 - Speculative behaviors stems from the anticipation of beliefs (the beauty contest metaphor).
- ◇ The market efficiency hypothesis is contradictory to the individual utility optimization hypothesis (Grossman and Stiglitz 1980)
 - “because information is costly, prices cannot perfectly reflect the information which is available, since if it did, those who spent resources to obtain it would receive no compensation. There is a fundamental conflict between the efficiency with which markets spread information and the incentives to acquire information” (p. 405).
- ◇ Market behavior is driven by the beliefs and perceptions of market players (Kirman 2001, Orléan 2001).
- ◇ In other terms: **Markets are institutions embedded in other institutions.**

The institutionalist approach of markets



The political and institutional role of markets: to objectivize the decision-making process

- ◇ Individual vs. collective choices (administrations, firms, non-profit organizations...)
- ◇ The need to establish an “objective” price is not just a question of efficiency, but also of **legitimacy**.
- ◇ The third feature of markets is to give social and political legitimacy to a certain balance of power.
 - How can we replace the market?
 - The **neo feudal perspective**: replacing the rule of law by the rule of men:

“Today, with the withering-away of the state and the new forms of alienation this brings, a typically feudal legal structure is re-emerging, consisting of networks of allegiance within which each person seeks the protection of someone stronger than he is, or the support of someone weaker.” (Supiot 2017: 10).

Responding to ecological challenges and resource scarcity

- ◇ Neoliberalism works as long as **constraints on natural resources are light**. If this is not the case, other mechanisms must be used (cf. 1933 – 1971 period).
- ◇ The coming decades could see contemporary societies having to manage shortages.
 - Global decline in the working-age population, especially in countries with productive capital.
 - Cost of ecological transition and decarbonization.
 - Growing scarcity of energy and raw materials.
- ◇ Abandoning the **single-price principle** and its consequences.

An agenda for a democratic economy

1. Responding to the climate emergency and the scarcity of natural resources

First principle: Making the paradigm shift to a sustainable economy requires a profound reorientation of our productive system. This reorientation will only be possible if it is based on more effective mechanisms than the price signal alone. States will have to invest massively in technological research to find new sources of decarbonised energy. They will also have to reorient the economy along the lines of a war economy by differentiating between the uses of non-renewable resources and energy in their allocation mechanisms.

An agenda for a democratic economy

2. Determining the role of markets in the economy and society

Second principle: The market is an indispensable space in any developed society for everyone to be able to conduct business and trade freely. This space determines the value of commodities, which are the part of wealth that has been produced for the purpose of being sold. Other forms of wealth: labour force, natural resources, money and capital, and all non-market goods and services do not belong in the realm of the market, and their value cannot be derived from competitive supply and demand mechanisms.

An agenda for a democratic economy

3. Rethinking the economic role of the state

Third principle: The state is a sovereign institution that allows a nation to decide on and attain collective objectives. These goals must preserve a space for individual freedoms that includes freedom of trade and enterprise. The state is responsible for managing resources that are not commodities in a democratically decided manner. In order to achieve its objectives, or to preserve certain principles or values, it can intervene in the rules of markets and indeed directly in markets, for example by limiting competition or regulating prices.

An agenda for a democratic economy

4. Re-embedding the economy in democracy.

Fourth principle: Democracy presupposes the preservation of the primacy of politics over economics. This requires markets to be re-embedded in society and non-market wealth to be managed within the territories where most social institutions are located and where decisions can be made through the organisation of debate with the highest degree of popular legitimacy. Meanwhile, the objectives of environmental and climate preservation and the management of natural resources must be decided at the international level, through multilateral negotiations based on mutual respect.

Let's do it!



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