Chapter 8: The Minotaur's Global Legacy: The Dimming Sun, the Wounded Tigers, a Flighty Europa and an Anxious Dragon

The dimming sun: Japan's lost decades

As a pillar of the *Global Plan*, and under the loving patronage of the United States, Japan's export-led post-war growth was nothing short of miraculous. It materialised in two phases: By the late 1950s, Japan was already exporting light industrial goods while importing heavy industrial goods from the United States plus raw materials from elsewhere. Very quickly it graduated to a more mature pattern of trade, exporting heavy industrial goods and limiting its imports to scarce raw materials.

Japanese wages rose throughout the post-war period but never as fast as growth and productivity. The surpluses that this gap occasioned where guided by the Tokyo government to building infrastructure for the benefit of the private sector (e.g., transport, R&D, training, etc.) and, to a much lesser extent, toward a social safety net for the population at large.

Production was based on large scale capital investments yielding impressive economies of scale. It took place within highly concentrated oligopolistic structures known as *keiretsu* (e.g. Mitsui, Mitsubishi, and Sumitomo). The *keiretsu* were vertical conglomerates. Hierarchical organisations that included their own large bank, factories, plus an intricate subcontracting system that involved countless small-to-medium sized enterprises (SMEs) or *chusho-kigyo*. Though the SMEs accounted for up to 80% of total employment, their contribution to overall productivity was quite low, less than half of the average level of the larger firms.

The Japanese economic miracle was built on this combination of large interconnected conglomerates, the many small businesses that revolved around them, and a government that looked after the infrastructural and financial needs of both. From this perspective, it is easy to understand Japan's reliance on foreign demand: With so much emphasis on investment and production, with wages trailing productivity, and with minimal social spending, the Japanese economy cannot consume but a fraction of its output. This is why, after the *Global Plan*'s passing, the *Global Minotaur* was so important to Japan's economy. And why, with the *Minotaur* bleeding on the proverbial floor, Japan is currently so seriously destabilised.

Of course, Japan entered into its path of long decline in the 1990s. Commentators shine their searchlights on its banking sector for clues of what went wrong. Free market aficionados think they have spotted the problem the moment they found out that Japanese banks are, largely, controlled by the state. However, the trouble here is that the state-dependence of the banks is not only a problem for Japan's economy: it is also the reason for its success. Indeed, the longstanding alliance of government and banks afforded authorities leverage over investment, the result being a relatively easy implementation of the 'national policy' of industrialisation in the post-war period. The Japanese miracle would not have been possible without that tight embrace. It allowed government to discourage Japanese firms from financialisation while the Ministry of Finance performed that task, on their behalf and in association with the Bank of Japan. Industry was instructed to mind its core business (of making 'things' well) while government, and each bank affiliated to each *keiretsu*, were responsible for the flow and circulation of capital into and around these industrial groups.

During the *Global Plan*, and under America's tutelage, authoritarian *de facto* one-party rule (by the almost invincible *Liberal Democratic Party*) ensured that the Japanese state was semi-detached from civil society. Its policy makers had a major part in the unfolding drama that followed, after 1971, the *Global Plan*'s replacement by the *Global Minotaur*. In particular, the Japanese social economy faced a major overhaul in response to the dollar's initial devaluation. Japanese officials quickly reacted to the prospect of collapsing exports to the United States in two ways: *First,* by finding new technological solutions to maintain competitiveness. *Secondly*, by exporting capital to the United States in the form of foreign direct investment, purchases of US Treasury bills, and placements on the New York stock exchange. In short, to keep its oligopolistic industry going, Japan chose to nourish the *Global Minotaur*, exactly at the US authorities had anticipated.

The tacit US-Japanese accord was simple: Japan would continue to recycle its trade surpluses by purchasing US debt and investing in America and, in return, it would be granted continued privileged access to America's domestic market, thus providing Japanese industry with the overall demand that Japanese society was incapable of producing. However, there was a snag: When one buys foreign assets, at some point these assets start generating income which must be, eventually, repatriated. Japan thus 'ran the risk' of ceasing to be able to remain a net capital exporter, turning into a rentier nation. This prospect was at odds with the post-oil crisis Japanese growth strategy, which was to concentrate on high value-added, low energy-using industries like electronics, integrated circuits, computers and mechatronics (industrial robots).

On 22nd September 1985, the United States, Japan, W. Germany, France, and Britain signed the *Plaza Accord***.** The agreement's stated purpose was to devalue the US dollar in an attempt to rein in the *Global Minotaur*: to reduce America's trade deficit (and, by extension, its budget deficit). Today, many commentators recall the *Plaza Accord* as a model of an agreement that America should be imposing on the Chinese, in order to reverse China's large trade surplus with the United States. While it is true that the Plaza Accord did succeed in devaluing the dollar *vis-à-vis* the Yen by more than 50% (within two years of its singing), these commentators are missing out the *Accord*'s real purpose: The aim was, at least in part, *to prevent Japan from becoming a rentier nation*, a development that would jeopardise both Japan's own long term plans and the *Global Minotaur*, whose wont was to remain the undisputed global rentier.[1]

The Yen's post-1985 climb forced the Japanese economy into the lap of a major, sustained slowdown. In an attempt to keep up the rate of investment, as Japanese exports were becoming dearer in the United States, the Bank of

[1] The other purpose of *Plaza* was to accommodate the United States' determination that its multinationals should play a larger role in the global electronics market that Japan and Germany threatened to dominate.

Japan pumped a lot of liquidity into the *keiretsu* system. The result was the largest build-up of excess liquidity in modern history. The side effect was massive speculative activity in Japanese real estate. And when in the early 1990s the authorities tried to deflate the real estate bubble by increasing interest rates somewhat, house and office prices crashed. The nation's banks ended up with huge loans on their books that no one could repay.

It is often argued that Japan's authorities neglected to force the banks to come clean regarding these bad loans. While this is accurate, it ignores the fact that the banks were intimately connected, via the *keiretsu* structure, to an intricate network of firms, small and huge. Had the state allowed the banks to write off their bad debts, they would have gone to the wall and the Japanese industrial miracle would have ended there and then. Instead, the government and the Bank of Japan injected as much liquidity as was required into the banks. Lamentably, most of these injections were absorbed by the black holes within the banks (the non-performing loans) without generating substantial new investment.

For the first time since the mid-1930s, an advanced capitalist economy had been caught in a recessionary *liquidity trap*: Despite the monetary authorities better efforts to boost investment by pushing interest rates down to almost zero and pumping liquidity into the banks, Japan's zombie banks could not deliver the hoped for investments. The government tried one fiscal stimulus after the other. Roads were built, bridges erected, railway projects criss-crossed the nation's islands. Even though they helped keep the factories going, the 'malaise' could not be lifted.

Interestingly, before 2008, the Japanese 'malaise' actively boosted the *Global Minotaur*. Japan's next-to-zero interest rates resulted in the accelerated migration of capital from Tokyo to New York, in search of better returns. To the already large amounts of capital that the government of Japan was investing in US government debt, and the equally large amounts of capital that Japanese firms were diverting to the United States in the form of foreign direct investment (e.g. the purchasing of American shares, of whole firms or the setting up by Sony, Toyota, Honda etc. of production facilities on US soil), a third capital flow was now added: The so-called *carry trade* by financial speculators who would borrow in Japan at rock bottom interest rates and, subsequently, shift the money to the United States where it would be lent for much higher returns. This *carry trade* expanded significantly the *Minotaur*'s inflows, thus speeding up the financialisation process that was to be, paradoxically, the *Minotaur*'s undoing.

After 2008, and the *Global Minotaur*'s forced abdication, the United States and Europe, to their horror, were to discover that the Japanese *liquidity trap* had spread to them. At that point all the chastisement that Japanese authorities had received from American and European commentators, for not having taken tough action against their zombie banks, was quietly forgotten. Indeed, Europe and the United States followed the same recipes that delivered Japan's lost decades. Zombie banks became a feature of the whole wide West. Moreover, unlike Japan's zombie banks which remain politically weak, America's and Europe's zombie banks rule the roost in the new socio-economic configuration that I call *bankruptocracy*.

Wounded tigers: Japan, America and the South East Asian crisis

Ever since the Korean and, more significantly, the Vietnam wars caused advanced capitalism to take root in South East Asia, Japan began to play the hegemonic role in the region (recall Chapter 3). Japan lent to the South East Asian tigers both the necessary technology and its initial growth spurt. However, it would be false to argue that Japan was to South East Asia what the United States were to Germany and Japan under either the *Global Plan* or the *Global Minotaur*. The difference is that Japan neither enjoyed substantial trade surpluses *vis-à-vis* South East Asian countries (as the United States had with Europe and Japan under the *Global Plan*) nor went through a period of absorbing South East Asia's trade surpluses (as America was doing with Europe' and Japan's under the *Global Minotaur*). Instead, South East Asia was always in a structural, long term, trade deficit with Japan, having to rely on net export revenues from America and Europe for its growth.

During the *Global Minotaur*'s best years, especially during 1985-1995, the decline in the value of the dollar was accompanied by a shift of Japan's foreign direct investment towards Asia. In a few years, the Japanese *keiretsu* had spread their wings over Korea, Malaysia, Indonesia and Taiwan by exporting capital goods used both in production and in the building of new infrastructure. This development was always part of the intention behind the 1985 *Plaza Accords*, a part compensation for Tokyo's acquiescence to American imperatives. The American government, the IMF, the World Bank, indeed the complete panoply of advanced Western capitalism, leant on the South East Asian governments, pushing relentlessly for a complete liberalisation of their capital markets. The idea was, simply, to facilitate Japanese investment in South East Asia, but also to spread Wall Street's reach and profiteering in that part of the world (where returns were higher, due to fast growth, than in the West).

South East Asia buckled under the pressure. Foreign capital streamed in, pushing real estate and share prices up and causing those countries' trade deficit *vis-à-vis* Japan to rise. And as the Japanese were always incapable of generating sufficient overall demand for their own output, the pressure to find export markets for South East Asian output *outside Japan* grew even stronger. At that point, once again, the United States came to the rescue. For unlike Japan (that could produce everything except the requisite demand necessary to absorb its shiny, wonderful industrial products), America, under the *Minotaur*'s gaze, had mastered the art of creating immense levels of demand for other people's goods. Thus the United States became *the* export market for the area as a whole, inclusive of Japan, while South Korea and Taiwan imported mostly from Japan. This process created, perhaps for the first time, the Japanese *vital space* that the *Global Plan*'s designers had imagined in the late 1940s, but was never implemented after Chairman Mao's unexpected victory.

After the *Plaza Accord*, the flood of Japanese liquidity and foreign investments spread rapidly into South East Asia. These capital inflows into the tiger economies came on top of the increasing revenues from net exports into the United States. Soon they spearheaded a real estate bubble. Toward the end of the 1990s, the bubble burst and foreign capital departed much faster than it had poured in, plunging these countries into a terrible nightmare. Building sites were abandoned, currencies devalued precipitously, investment dried up, unemployment heightened social tensions, poverty began to rise again and, worst of all, the IMF was called in. Its loans were conditional on policies that were designed for countries with an unproductive, corrupt public sector. The tragedy was that these policies were completely ill-suited to the tiger economies whose problem was not too much social spending or corruption but over-extended financial institutions and a liquidity crisis.

After a hideous period of utterly unnecessary austerity imposed by IMF's fundamentalist austerian logic, the South East Asian tigers gradually recovered, partly due to the *Minotaur*'s continuing rude health and partly because of the large devaluations of the local currencies. Their governments came out of the late 1990s crisis with one cast iron commitment in mind: Never again would they call in the IMF! Never again would they allow Wall Street and assorted foreign bankers to destroy their hard earned progress!

From that day onwards, South East Asia made a point of accumulating dollar reserves for a rainy day. Those reserves were then merged with the New York-bound tsunami of capital that kept the *Minotaur* vibrant, insolent and, ultimately, dominant.

After the *Crash of 2008*, the yen re-valued substantially, giving another blow to Japan's plans for export led growth. The tigers, on the other hand, kept their currencies tied to the dollar. The conventional wisdom is that, at a time of crises, capital flows back to the largest economies in search of safe havens and that this is the reason why the dollar and the yen rose in 2008. But that leaves unanswered the question of why the yen rose so fast against the dollar (and thus against the South East Asian currencies). The explanation is that, with interest rates in Europe and America competing against Japanese interest rates in a frantic race-to-zero, Japanese privately owned capital no longer had a good reason to stay abroad: Thus, a mass repatriation of Japanese capital (the part of it that did not 'burn up' during the *Crash*) pushed the Yen up, placing Japanese industry at a disadvantage both with the United States and in relation to South East Asia.

The long term effect of this repatriation of Japanese savings is of global importance. On the one hand it deepened Japan's stagnation, through the appreciation of the Yen, while, on the other, the end of the Yen *carry trade* translates into an upward push for world interest rates at a time when the global economy is wrestling with powerful recessionary forces. Additionally, it is the real reason why China, which had in the meantime emerged fully, resists western attempts to make its currency convertible and un-peg it from the US dollar: *The Dragon had learned its lessons from the tigers' bitter experience.*

The only silver lining of the *Crash of 2008* for East Asia is that South East Asia has strengthened its position relative to Japan, even though it faces great uncertainty on the demand-for-its exports front. Its struggle to maintain net exports to the rest of the world will prove particularly challenging, especially as it must proceed under the long shadow of the Great Dragon to the north.

Summing up, Japanese capitalism's Achilles Heel was that, unlike the United States, it never managed to cultivate an hegemonic position in relation to South East Asia. While Korea, Taiwan, Malaysia, Singapore etc. relied on Japan for technology and capital goods, they could not look to it as a source of demand. The whole area remained tied to the *Global Minotaur* and its whimsical ways. China grew into a superpower in this context. It is determined not to get caught either in a Japanese type of malaise or in a trap like that in which the South East Asian tigers found themselves in the late 1990s.

Germany's Europe

It is now appropriate to turn to the *Global Plan*'s second pillar: Germany and its mixed fortunes during the *Age of the Minotaur,* and beyond. The difference with Japan was this: In trying to shield its own export-led growth from the post-1971 dollar devaluation, Germany had something that Japan lacked: access to its own *vital space*; a space that the United States had previously laboured so hard to create on Germany's behalf: the *European Common Market*, i.e. today's *European Union* (EU). The role of German exports to the rest of Europe remained that which the *Global Plan*'s American architects had envisioned: To support a strong Deutschmark and, at the same time, to play a central role in the industrial development of the rest of Europe. Indeed, German exports were not just Volkswagens and refrigerators but also capital goods essential for the normal functioning of every aspect of Europe's productive apparatus.

Nevertheless, Germany was not Europe's locomotive. From 1973 onwards, the developmental model of continental Europe has been resting on the combined effect of maintaining a powerful capital goods industry, linked through Germany's global corporations. However, the overall demand that keeps these corporations going was always scarcer in their home countries, than in their neighbours. Like Japan, Germany too showed a magnificent capacity efficiently to produce the most desirable and innovative industrial products. Equally, it too failed miserably to generate endogenously the requisite demand for them. But, unlike Japan, Germany had the advantage of its European periphery, or *vital space*, which provided a significant portion of demand for its industrial output thus making Germany less dependent (relatively to Japan) on the *Minotaur*.

Much ink has been expended in recent years to discuss Europe's fundamental heterogeneity. But how could it be otherwise? Is the dollar zone homogenous? Does Germany itself consist of equally developed and dynamic *Länder*? Of course not. Broadly speaking, the EU comprises three different species of economy: Persistent surplus generating countries (Germany, Holland, the Flemish part of Belgium, Austria and Scandinavia), persistent deficit inducing countries (Italy, Greece, Spain and Portugal), and... France, a country in a category of its own.[2] The reason France is an outlier has to do with the fact that, while it consistently fails to join the group of surplus nations, it nevertheless enjoys two major strengths: *First*, the calibre of its political institutions which (perhaps due to its Napoleonic past) were the nearest Europe got to a policy making civil service that might rival that of Washington. *Secondly*, France sports a large banking sector which is more advanced than that of the surplus countries. Because of the *gravitas* of its banks, France achieved a central position in the facilitation of trade and capital flows within the European economy.

[2] I leave Britain outside this taxonomy. Following its deindustrialisation, under the Thatcher government, the only thing standing between Britain and Europe's stragglers is the City of London with its pivotal position in the world of finance. Ireland is also excluded because it is currently undergoing a crisis that may well alter its status quite fundamentally.

From 1985 onwards the *Global Minotaur*'s drive to expand the American trade deficit translated into a major improvement in Germany's trade balance. This rubbed off on the rest of the EU, which saw its collective trade position go into surplus. This was the environment in which the forces that would create the common currency, the euro, gathered pace. Each grouping had different reasons for wanting a currency link up.

From the 1970s onwards, Germany was keen to shore up its position in the European scheme of things, as a net major exporter of both consumption and capital goods and a net importer of... overall demand. Key to its success was the policy of keeping its growth rate below that of the rest of Europe while, at the same time, maintaining investment at a much higher level than that of its neighbours. The aim of this policy was simple: To accumulate more and more trade surpluses from within its European *vital space* in order to feed the *Minotaur* across the Atlantic so as, in turn, to financialise its own export expansion within the United States and, later, China.

The one spanner in the works of this *German Strategy* was the threat of competitive currency devaluations that Italy and other countries were using with good effect to limit its trade deficits *vis-à-vis* Germany. The idea of a monetary system to limit currency fluctuations proved a major motive for Germany's acquiescence to the idea of giving up its cherished Deutschmark. But when the European *Exchange Rate Mechanism*, that was set up to limit intra-European currency fluctuations, collapsed after a speculative attack in the 1990s, Germany opted for *Plan B*: A common currency that would stop the speculators from speculating against the range of currency fluctuations.

The rest of the Europeans each had their own reasons for wanting a common currency. The elites in the deficit countries had grown particularly tired of devaluations. Plain and simple. The fact that the Deutschmark value of their bank accounts and beautiful summer villas was liable for large and unexpected falls weighed heavily upon them. And as their working classes were also tired to watch inflation eat into their hard won wage rises, the Greek and Italian elites found it easy to convince them to share the dream of a common currency. Of course, there was a hefty price to pay: To lower inflation to the 3% limit that was a prerequisite for entering the eurozone, deficit countries had to induce effective stagnation in the productive sectors of their own economy. The shortfall in wage income was, nevertheless, ameliorated by the rise in lending which was made cheaper as interest rates fell. Just like in the United States in the 1970s and 1980s working people were forced to accept lower real wages in return for shiny credit cards, similarly in Europe's deficit countries the underprivileged were forced to take on more debt.

However, the key to the euro project was none other than Europe's glorious outlier: France! France's elite had three reasons for seeking a lock up between the Frank and the Deutschmark: *First,* it would strengthen the political elite's bargaining position *vis-à-vis* the powerful French trades unions, in view of the moderate wage rises across the Rhine that German trades unions negotiated with employers and the Federal government. *Secondly*, it would shore up its, already important, banking sector. And *thirdly* it would enable its political elites an opportunity to dominate Europe in the one realm where French expertise was well advanced compared to its German counterpart: the construction of transnational political institutions.

The Deutschmark's new clothes

The formation of the euro engendered deepening stagnation in the deficit countries plus France. It also enabled Germany and the surplus eurozone nations to achieve exceptional surpluses. They became the financial means by which German corporations internationalised their activities in the United States, China and Eastern Europe. Thus Germany and the other surplus countries became the *Global Minotaur*'s European opposite; its *Simulacrum*:[3] As the *Minotaur* was creating demand for the rest of the world, the *Simulacrum* was draining the rest of Europe of it. It maintained Germany's global dynamism by exporting stagnation into its own European backyard.

At the aggregate level, the eurozone was making good progress. Total incomes were rising but, underneath the surface, the industrial sectors of France and the deficit countries entered into a slow burning recession. It was the price stragglers and ambitious France had to pay for hooking their currencies up to the Deutschmark. Their reward? Cheaper loans and debt-driven consumerism.

Before the *Crash of 2008*, Europe's *Minotaur envy*[4] manifested itself in long treatises on the sluggishness of continental growth and the superiority of the Anglo-celtic model. In reality, the lethargic European growth rates, which did decline during every single one of the last four decades, had nothing to do with inflexible labour markets, an arthritic financial system, or over-generous social security. They were due, simply, to the way in which most of Europe was falling under the spell of German surpluses. The only relief Europe's deficit countries received, during the *Global Minotaur*'s halcyon days, came from net exports to the United States. But when 2008 struck, even that silver lining vanished.[5]

The institutional guise of the *Simulacrum* came in the form of the famous *Maastricht Treaty* which set up the rules governing eurozone membership. It stipulated *budget deficits* for member states capped at 3% of GDP, *Debt-to-GDP* ratios below 60%, *monetary policy* that was be decided upon and implemented by an 'independent' inflation-busting *European Central Bank* (the ECB) and, last but not least, a *no transfers clause* (or no 'bail outs', in post-2008 parlance). The latter meant that, if members states ever got into fiscal trouble, they should expect no assistance from the euro's institutions (ECB, Eurogroup etc.) or from fellow eurozone members.

The *Maastricht Treaty* was sold to the European public and elites as reasonable measures for shielding the euro from *free riding*. The metaphor most often used was that of a joint bank account from which each account holder can withdraw money independently of contribution and without prior agreement. Such an account would soon be depleted, the story went. The equivalent for the eurozone would be member state profligacy that undermines the common currency's credibility and value.

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[3] French philosopher Gilles Deleuze defines a simulacrum as a 'system' "...in which different relates to different *by means of* difference itself". See his *Difference and Repetition*. Columbia University Press, 1968.

[4] Recall the introduction to Chapter 5.

[5] At a time when Europe's deficit nations and France had to reckon also with growing deficits with Asia.

Although a mechanism preventing such *free riding* is necessary for any currency union, it is certainly not sufficient. Something was missing. Was that 'something' left out accidentally, or was there a hidden agenda? I think the latter. In fact, it was the same agenda that lay behind Harry Dexter White's rejection of Keynes' *International Currency Union* (ICU) proposal at Bretton Woods, in 1944.[6] Just like the Americans insisted on preserving their right to run large surpluses under the *Global Plan*, so did Germany demand that the *Maastricht Treaty* would not include any explicit *Surplus Recycling Mechanism* (SRM). The objective? To use the creation of the eurozone as a mechanism by which to cast in stone the 'obligation' of the deficit countries (plus France) to provide Germany with net effective demand for its exports.

The great difference between American hegemony worldwide and German dominance within the EU was that the United States understood well the importance of recycling surpluses. The Americans' only difference with Keynes was that they did not want the SRM to be formally instituted. So, under the *Global Plan*, they made a habit of supporting Germany and Japan with generous capital injections. And when the *Global Plan* died an ignominious death, the *Global Minotaur* that took over recycled with glee, albeit by reversing the flows of capital and trade surpluses in favour of Wall Street. As long at that ecumenical beast kept going, the eurozone's faulty architecture held on.

When the *Crash of 2008* wounded the *Minotaur,* the euro cracked. Greece was its weakest link but the problem was deeply ingrained in the whole design and, in particular, the lack of an SRM. But before saying more on this, it is best to take a few steps back, to the moment the two post-war Germanies became one.

Europa's flight

It is tempting to stretch this book's central metaphor to include the myth of Europe. According to the same mythology that gave us the *Minotaur*, *Europa* was a fair Phoenician Princess that Zeus took a fancy to. Metamorphosised into a white bull, he lured her into riding him and, before she got a chance to jump off, he dashed into the Aegean and carried her to Crete. King Minos was the product of that union. Which makes *Europa* the *Minotaur*'s step-grandma.[7]

Another wrinkle to this story is that, before returning to Hera, Zeus bestowed certain gifts upon Europa. One of these gifts was *Laelaps*, a hound that always caught its prey. (Another was a javelin that never missed its target.) Some generations later, *Laelaps* was enlisted to the task of hunting down the *Teumessian fox*; a fearsome animal designed by the gods never to be caught. The impossibility of the match between *Laelaps* and the *Teumessian fox* taxed Zeus' mind so much that he decided to turn them both into stone and cast them upon the night's sky. While wrecking their brains in search of policy fixes to the euro's troubles, Europe's policymakers may be amused to recall this metaphor for impossible tasks.

German Reunification and its global significance

The collapse of the Soviet Union, that began unexpectedly around 1989, soon led to the demolition of the Berlin Wall. Chancellor Helmut Kohl moved quickly to seize this opportunity to annex East Germany. Conventional wisdom has it that the inordinate cost of Germany's reunification is responsible for the country's economic ills and its stagnation in the 1990s. This is not my reading.

[6] That discussion was presented in Chapter 3.
[7] For the *Minotaur*'s birth story, return to Chapter 1.

While it is undoubtedly true that reunification strained Germany's public finances (to the tune of approximately $1.3 billion), and even led it to flout the very *Maastricht Treaty* that it had insisted upon, reunification helped reduce German labour's bargaining power. What the oil crises, Wal Mart and some aggressive corporate moves had achieved in the United States in the 1970s, reunification brought to Germany in the 1990s. It is also worth noting that East Germany was not the only part of the former Soviet empire whose collapse boosted German capital. From Poland to Slovakia and from Hungary to the Ukraine, dirt cheap labour became available to German companies.

More generally, Germany's response to the cost blowout of reunification was the pursuit of *competitive wage deflation*. Indeed, while the eurozone was being prepared, Germany, courtesy of reunification, was locking into its labour markets substantially decreased wages (in relation to the wages elsewhere in the eurozone). Almost in a bid to copy the *Global Minotaur*'s domestic strategy, the German *Simulacrum* promoted a strategy of restraining wage growth to a rate much below productivity growth. Once the euro was introduced, and German industry was shielded from the competitive currency depreciation of countries like Italy, its gains from the fall in wages became permanent.

Additionally, Germany's system of collective wage bargaining, based on a corporatist-*cum*-neo-mercantilist *entente* between German capital and the German trades unions, enabled the gap between productivity and wage growth to be more favourable to capital compared to the rest of Europe. The gist of the matter was low growth reinforcing German export competitiveness on the back of continual real wage deflation and vigorous investment. As the *Global Minotaur* began to soar, after 2004, Germany's trade surplus took off in sympathy, capital accumulation rose, unemployment fell to two million (after having risen to almost double that) and German corporate profits rose by 37%.

However, even though the picture seemed quite rosy for the German elites, something rotten was taking over its banking sector; a nasty virus that the *Minotaur Simulacrum* had wilfully contracted from the *Global Minotaur* itself. And when the *Crash of 2008* happened in New York and London, that virus was energised in earnest.[8] It was to become the beginning of the euro's existentialist crisis.

First as history then as farce: Europe's bank bail outs

Despite European gloating that the *Crash of 2008* was an Anglo-Celtic crisis, and that its own banks had not been taken over by financialisation's equivalent to a gold fever, the truth soon came out. German banks were caught with an average *leverage ratio* of €52 borrowed to every €1 of own funds; a ratio worse even than that raked up by Wall Street or London's City. Even the most conservative and stolid state banks, the *Landesbanken*, proved bottomless pits for the German taxpayer. Similarly in France whose banks had to admit that they had at least €33 billion invested in CDOs. To this sad sum, we must

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[8] IKB Bank, and its parent bank KfW, were the first to have been burnt by Wall Street scams that exploded in 2008. They ran to Berlin for government assistance. The bill came to €1.5 billion. It was the tip of the iceberg. The *Global Minotaur*, unbeknownst to the German people, and to most of its politicians, had infected German capital with the virus of financialisation. When that disease became fully blown, the German taxpayer had to foot an enormous bill.

add the European banks exposure to the indebted eurozone states[9] (€849 billion), to Eastern Europe (more than €150 billion), to Latin America (more than €300 billion), and to around €70 billion of bad Icelandic debts.

The European Central Bank (ECB), the European Commission (the EU's effective 'government') and the member states rushed in to do for the European banks that which the United States administration had done for Wall Street. Only there were two profound differences. The first difference is that the euro is nothing like the dollar. While the dollar remains the world's *reserve currency*, the Fed and the US Treasury can write blank cheques knowing that it will make very little difference on the value of the dollar, at least in the medium term. Indeed, IMF data shows that the dollar's share of global reserves was 62% at the end of 2009 and has, since then, been rising in response to Europe's post-2010 debt crisis.

The second difference relates to the eurozone's problematic architecture, especially the way that its member states are bound by a common currency but their public debts are strictly separate, their banks are the responsibility of member states alone, and there is no *Surplus Recycling Mechanism* to avert structural faultlines from developing. To put it simply, imagine what would have happened in 2008 if in the 'dollar-zone' each state (e.g. California or Nevada) had to bail out the banks registered on their soil and there was no way of financing public deficits from Washington!

Within this institutionally problematic framework, the ECB and the European Commission struggled to contain the banking crisis. Between 2008 and 2009, they 'socialised' the banks' losses and turned them into public debt. Meanwhile, the economy of Europe went into recession, as expected. In one year (2008-9) Germany's GDP fell by 5%, France's by 2.6%, Holland's by 4%, Sweden's by 5.2%, Ireland's by 7.1%, Finland's by 7.8%, Denmark's by 4.9%, Spain's by 3.5%...

Suddenly, hedge funds and banks alike had an epiphany: Why not use some of the public money they were given to *bet* that, sooner or later, the strain on public finances (caused by the recession on the one hand, which depressed the governments' tax take, and the huge increase in public debt on the other, for which they were themselves responsible) would cause one or more of the Eurozone's states to default?

The more they thought that thought, the gladder they became. The fact that euro-membership prevented the most heavily indebted countries (Greece *et al*) from devaluing their currencies, thus feeling more the brunt of the combination of debt and recession, focused their sights upon these countries. So, they decided to start betting, small amounts initially, that the weakest link in that chain, Greece, would default. As London's famous bookmakers could not handle multi-billion bets, they turned to the trusted CDSs;[10] insurance policies that pay out pre-specified amounts of money if someone else defaults.

Of course, as the volume of trade in this newest form of *private money* increased the crisis worsened. There were two reasons for that: First, the rise in the price of CDSs taken out against Greece or Ireland pushed up the interest rates that Athens and Dublin had to pay to borrow, thus pushing them further into the red (and effective bankruptcy). Secondly, the more money was

[9] Greece, Ireland, Portugal, Spain, Italy and Belgium.
[10] See the relevant box in Chapter 6 for a description of CDSs.

spent on these CDSs the more capital was siphoned off both from corporations seeking loans to invest in productive activities and from states trying to refinance their burgeoning debt.

In short, the European variant of the banks' bail out gave the financial sector the opportunity to mint *private money* all over again. Once more, just like the *private money* created by Wall Street before 2008 was unsustainable and bound to turn into thin ash, the onward march of the new *private money* was to lead, with mathematical precision, to another meltdown. This time it was the *public* (also known as *sovereign*) *debt crisis* whose first stirrings occurred at the beginning of 2010 in Athens, Greece.

Greeks bearing debts

In October 2009 the freshly elected socialist government announced that Greece's true deficit was in excess of 12% (rather that the projected 6.5%, already more than double the Maastricht limit). Almost immediately the CDSs predicated upon a Greek default exploded, as did the interest rate the Greek state had to pay to borrow in order to refinance its €300 billion debt. By January 2010 it had become clear that, without institutional help, the Greek government would have to default.

Informally, the Greek government sought the assistance of the eurozone. German Chancellor Angela Merkel who issued her famous *nein*-cubed: *Nein* to a bail out for Greece; *nein* for interest rate relief; *nein* to a Greek default. That triple *nein* was unique in the history of public or even private finance. Imagine if on 15th September 2008 Secretary Paulson had said to *Lehman Brothers*: "No, I am not going to bail you out" (which he did say); "No, I shall not organise for you very low interest rate loans" (which he also probably said); and "No, you cannot file for bankruptcy" (which he would never have said)." The last no is unthinkable. And yet this is precisely what the Greek government was told. The German government could fathom neither the idea of assisting Greece nor the idea that Greece would default on so much debt held by the French and German banks (about €75 billion and €53 billion respectively).

For five tortuous months, the Greek state was borrowing at usury rates, getting deeper and deeper into insolvency, pretending that it could weather the storm. Mrs Merkel seemed prepared to let Greece twist in the wind until the very last moment. That moment came in early May of 2010 when the world's bonds markets went into something close to the *Credit Crunch* of 2008. The Greek debt criis had panicked investors and caused them not to buy *anyone's* bonds, fearing a cascading default similar to that of 2008. So, on 2nd May 2010, the Eurozone, the ECB and the IMF agreed to extend a €110 billion loan to Greece at an interest rate high enough to make it highly unlikely that the Greek public purse would be able to repay this new loan as well as the existing ones.

Naturally unconvinced that throwing new, expensive loans on an insolvent government, which was presiding over an economy in deep recession, would magically render it solvent, investors continued to bet in a default by Greece and also by other vulnerable eurozone states. So, a few days later, the EU announced the creation of the *European Financial Stability Facility* (the EFSF, whose toxic structure was discussed in Chapter 7), supposedly a war chest of €750 billion that would be on standby, just in case another eurozone member needed assistance with its public debt repayments.

The markets, after a few days of calmness, took a good look at the EFSF and decided it was merely a stop-gap measure. Thus the euro crisis continued with a vengeance. The reason is, of course, that expensive new loans do not address the deficit states' descent into bankruptcy and they certainly do nothing for the faulty architecture, the noxious *Simulacrum*, whose destructive potential was realised the moment the *Global Minotaur* was wiped out by the *Crash of 2008*.

If I am right, and the euro crisis is a systemic failure that began as a banking crisis, Europe's medicine is worse than the disease. It is like sending a weak swimmer out to sea to save a drowning bather. All you can expect is the sad sight of the two weak swimmers hanging onto one another for dear life, both sinking fast toward the bottom of the sea.

The two swimmers are, of course, the eurozone's deficit states and Europe's banking system: Over-laden with paper debts issued by states like Greece and Ireland, which are worth little, they constitute black holes in which the ECB keeps pumping oceans of liquidity that, naturally, only occasion a tiny trickle of extra loans to business. Meanwhile, the ECB, the surplus countries and the IMF steadfastly refuse to discuss the banking crisis, concentrating their energies solely on imposing massive austerity on the deficit states. In a never ending circle, the imposed austerity worsens the recession afflicting these deficit states and, thus, inflames the bankers' already grave doubts about whether they will ever be paid back by Greece, Ireland etc. And so the crisis is reproducing itself.

Tumbling mountaineers and the euro crisis

The domino effect, with one deficit-stricken country falling upon the next, until none is left standing, is the common metaphor by which the eurozone's crisis is narrated. I think there is a better one: It is that of a group of disparate mountaineers, perched on some steep cliff-face, tied to one another by a single rope. Some are more agile, others less fit, all bound together in a forced state of solidarity. Suddenly an earthquake hits (the *Crash of 2008*) and one of them (of a certain Hellenic... disposition) is dislodged, her fall arrested only by the common rope. Under the strain of the stricken member's weight, dangling in mid-air, and with some extra loose rocks falling from above, the next weakest (or 'marginal') mountaineer struggles to hang on but, eventually, has to let go too. The strain on the remaining mountaineers greatly increases, and the new 'marginal' member is now teetering on the verge of another mini free-fall that will cause another hideous tug on the remaining circle of 'saviours'.

This is precisely why the euro crisis has not been dealt with. The EFSF structure was compared in Chapter 7 to the structure of Wall Street's toxic CDOs. With each country that leaves the bond markets, and seeks shelter in the EFSF, the next 'marginal' country faces higher interest rates while the average country's burden also rises. This is a dynamic from hell. It is like watching a tragic accident happen in slow motion. Only the reality of the euro crisis is, in fact, much worse. For there is another aspect of it that the mountaineering example does not capture: The banking crisis which is intensifying with each 'transition' of a country into the 'receiving' end of the EFSF.

Indeed, as the tragedy on the cliff-face deepens, the drama in the banking arena intensifies too, the budget deficits grow, austerity causes more banking anxiety by clearly boosting the shrinking of the deficit economies and, in a vicious feedback effect, that parallel drama dislodges the next 'marginal' country from the cliff-face.

Most puzzlingly, this is a crisis that Europe could resolve in a few weeks. How could it be resolved? And, if am I right, why is Europe dithering?

Why is Europe dithering when the crisis can be resolved simply and quickly?

I shall start by explaining how the twin crisis facing the eurozone, the one involving the indebted states and the other afflicting the banking sector, could be resolved without delay. Europe's approach has failed because it has both ignored the way the debt crisis and the banking crisis are reinforcing one another and, additionally, because it has turned a blind eye to the deeper cause of the crisis: the lack of a *Surplus Recycling Mechanism* at the heart of the eurozone. Here are three simple steps in which effective remedies can be put in place:

The *first step* would be for the ECB to make the continuation of its generous assistance to the banks conditional on the banks writing off a significant portion of the debts of the deficit countries to them.[11] (The ECB has ample bargaining power to effect this as it is constantly keeping Europe's effectively bankrupt banks liquid.)

The *second step* would have the ECB take on its books, with immediate effect, a portion of the public debt of *all* member states equal in face value to the debt that the *Maastricht Treaty* allows them to have (i.e. up to 60% of GDP). The transfer is financed by ECB-issued bonds that are the ECB's *own liability*, rather than being guaranteed by member-states. Member-states thus continue to service their debts but, at least for the *Maastricht*-compliant part of the debt, they pay the lower interest rates secured by the ECB bond issue.

Finally, the *third step* brings into play another venerable EU institution, the *European Investment Bank* (EIB). The EIB has the capacity to invest in profitable projects twice the capital of the *World Bank*. Unfortunately, it is under-utilised because member-states must advance, under existing rules, a proportion of the investment. In the awful state they find themselves in, the eurozone's deficit states cannot afford to do this. But by granting member-states the right to finance their contribution to the EIB-financed investment projects by means of bonds issued for this purpose by the ECB (see the *second step* above) the EIB can become the *Surplus Recycling Mechanism* which the eurozone is now missing: Its role will be to borrow, with the ECB's assistance, surpluses from European and non-European surplus countries and invest them in the Europe's deficit regions.

Summing up, the first two steps would make the debt crisis go away and the third would underpin the eurozone by providing its missing link; the mechanism that it never had and whose lack caused the euro crisis in response to the *Crash of 2008*. But if I am right about all this, why is Europe not taking up this suggestion, or something along these lines? The answer lies in the preceding pages. Time to spell it out: It is because, if the euro crisis is resolved quickly and painlessly, the surplus eurozone countries (Germany in particular) will forfeit the immense

[11] Technically this could be done by swapping the existing bonds of deficit states that Europe's banks hold for new ones with a much lower face value.

bargaining power which the simmering crisis hands the German government *vis-à-vis* France and the deficit countries.

To put the same point differently, the surplus countries now have one foot inside the eurozone while retaining the other foot outside of it. On the one hand, they have bound the rest of the eurozone to them by means of a common currency, thus securing large intra-eurozone surpluses. On the other hand, they know that the ongoing crisis affects the deficit countries disproportionately and, as long as the surplus countries retain the option of getting out of the eurozone, their bargaining power in Europe's *fora* is immense. For instance, whenever the German Chancellor wants to take some item off the agenda, she does so unopposed. But were the crisis to end tomorrow in a manner that prevents the surplus countries from ever leaving the eurozone, then Germany's Chancellor is just another one of almost two dozen heads of government around a large decision table.

Now notice how the *second step* of my proposed euro crisis solution would stop Germany from ever leaving the eurozone: Once the ECB, a common institution, acquires large debts (by issuing its own bonds) it becomes impossible to allocate this common debt among different member-states. Thus, it is impossible for anyone to leave. Furthermore, if the *third step* is adopted, and Europe is fitted with the missing *Surplus Recycling Mechanism*, Germany's *Simulacrum* will be well and truly debased.

So, it seems that the euro crisis is wholly unnecessary from an economic viewpoint but that it serves the interests of maintaining within Europe the role that Germany developed for itself during the reign of the *Global Minotaur*. And now that the Minotaur is *kaput*, Europe is in crisis and Germany in... denial.

The Dragon soars, then plunges into angst

On 4th December 2010, *Wikileaks* posted an official cable relating a conversation (*circa* 28th March 2009) between US Secretary of State Hillary Clinton and Australian Prime Minister Kevin Rudd. In it we read: *The Secretary also noted the challenges posed by China's economic rise, asking, "How do you deal toughly with your banker?"*

The reader may, understandably, protest a startling omission in this book: While promising to speak to the future of the world economy, there has been almost no mention of China. Undoubtedly, the swashbuckling re-emergence of what was, historically, one of the world's leading powers is the big story of our times. Its bearing upon the future will be as significant as that of the United States during the 20th century. Of this I have no doubt. Nevertheless, neither the nature of China's rise nor its future impact can be understood without a good grasp of the world as shaped by the *Global Minotaur.* For, come to think of it, the *Soaring Dragon* not only grew up in an environment shaped by the *Global Minotaur* but must also mature in an unstable world occasioned by the latter's demise.

Deng Xiao Ping's new course for China was modelled on Japan and the South East Asian tigers. The organising principle behind the Chinese plan for growth was that of a dual economy in which special economic zones would punctuate China with small Singapores or Hong Kongs, islands of intense capitalist activity in a sea of unlimited labour power. Meanwhile, the centre would direct investment (very much along the lines of the Japanese model) but would also negotiate technology transfers and foreign direct investment directly with Western and Japanese multinational corporations. As for China's global positioning, it would resemble that of South East Asia, in seeking sources of demand for its export-led growth from the United States and Europe.

It can be safely suggested that China owes its *élan* to the *Global Minotaur*. American, European and Japanese multinationals played a crucial role in setting up shop in China and using its low costs in order to export to the rest of the world, especially to the United States. At the same time, cheap Chinese imports into the United States has helped Wal-Mart style American companies to squeeze prices to unbelievably low levels, helping in the drive to minimise US inflation, a key requirement (as we saw in Chapter 4) for the continuing capital flows into the United States that kept the *Minotaur* happy and joyous.

As China was learning the ropes, becoming one of the *Minotaur*'s favourite feeders, its leaders became keen observers of US policies that had the potential to affect China's growth path. In particular, they learned important lessons from the 1985 *Plaza Accord* which, as we saw, condemned Japan to an untenable position, and from the 1998 South East Asia crisis that was caused by America's successful bid to rid the tigers of financial regulation and expose their financial markets to the vagaries of Wall Street, the City and the European banks.

A widely accepted current hypothesis is that, because of these experiences, the Chinese are resisting America's asphyxiating pressures to re-value the Chinese currency (the Remnibi, or RMB). Seemingly, following the *Crash of 2008*, the United States are pushing hard for an RMB re-valuation for the same reasons they pushed the Japanese in the 1980s to sign the *Plaza Accord*. The conventional view here is that the US government, in its haste to do something about the low level of demand in its domestic market, is trying to do what all governments do in a recessionary climate: To drum up demand from abroad, usually by devaluing their currency (or, equivalently, by enticing foreigners to re-value theirs). Once more, I do not thing that the standard explanation is the whole story.

While American firms whose base is predominantly in the United States are pushing for an appreciation of the RMB, for the reasons stated above, it is not at all clear that the heralded currency wars between China and the United States are of the traditional type just put forward. There are two reasons for remaining sceptical on this issue: *First*, it is not at all clear that US policy makers have accepted that the *Global Minotaur* is finished; that the strategy of expanding, or at least not shrinking, the US twin deficits must be abandoned. *Secondly*, some of the largest, best endowed and most dynamic American corporations would be hit hard if the RMB were to re-value. For they are already producing a great deal of their output within China, before exporting it to the rest of the world. An RMB appreciation would cut into their profit margins. Every iPad, each HP computer, even American cars (many of which use Chinese manufactured parts) will have to increase in price. Indeed, while the American government is lobbying with Beijing to re-value the RMB, countless Western multinationals are threatening China to withdraw (and re-settle in India or even Africa) if the RMB is allowed to rise significantly against the US dollar.

Besides the US-Chinese nexus, China's startling growth made an indelible mark on the rest of the developing nations. Some were devastated by the competition but others were liberated from a relationship of dependence on the West and its multinational corporations. Mexico was among the first group of countries to have suffered from China's rise. Because it had chosen to invest much energy into becoming a low-wage manufacturer on the periphery of the United States (and a member of the US-Canada-Mexico free trade zone known as NAFTA), China's emergence was a nightmare for Mexican manufacturers. However, it was a godsend for countries ranging from Australia (which in effect put its vast mineral resources at the disposal of Chinese firms) to Argentina and from Brazil to Angola (which in 2007 received more funding, as direct investment mainly into its oil industry, than the IMF had leant to the whole world).

Latin America is possibly the one continent that was changed forever by China's emergence into the *Global Minotaur*'s major feeder. Argentina and Brazil turned their fields into production units supplying 1.3 billion Chinese consumers with foodstuff, and also dug up their soil in search of minerals that would feed China's hungry factories. Cheap Chinese labour and China's market access to the West (courtesy of World Trade Organisation membership) is allowing Chinese manufacturers to undercut their Mexican and other Latin American competitors in the manufacture of low value-added sectors such as shoes, toys and textiles. This two-pronged effect causes Latin America to de-industrialise and return to the status of a primary goods producer.

These developments have a global reach. For if Brazil and Argentina turn their eyes toward Asia, as they already have started doing, they may abandon their long term struggle to break into the food markets of the United States and Europe, from which they have been barred by severe protectionist measures in favour of American, German and French farmers. Already, Latin America's shifting trade patterns are affecting the orientation of a region which was, until very recently, thought of as the United States' backyard.

Latin America's governments choose not to resist their countries' transformation into China's primary goods producers. They may not like de-industrialisation much but it is a far cry from the prospect of another crisis like that of 1998-2002 and another visit from an IMF seeking to exact more pounds of flesh from their people.

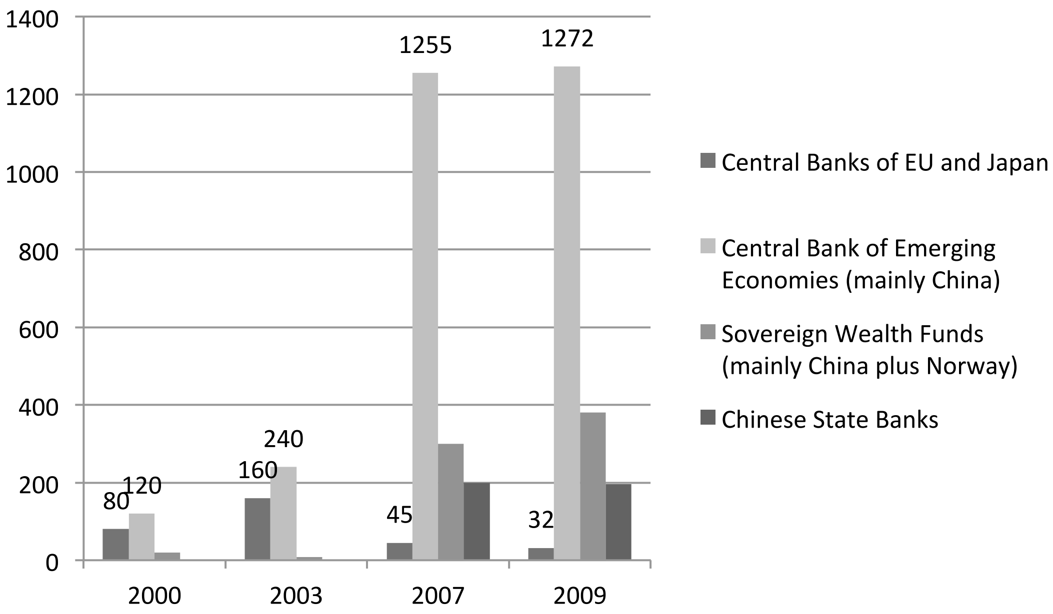
Returning to Secretary Clinton's remark at this section's beginning, it is clear what she meant by referring to China as America's banker. As we see in the graph below, the United States has, since 2000, shifted its reliance for financing its budget deficit from Europe and Japan to China. But what exactly was Mrs Clinton referring to when she hinted at "dealing toughly" with China? Did she mean, yet again, pressurising Beijing to revalue its currency? And was the reason the stated purpose of limiting the US trade deficit with China?

Possibly. However, an even more pressing reason is to preserve the profits of US multinationals which, since the 1980s, had set up production facilities in countries like Mexico and Brazil, and which are now under threat from severe Chinese competition.[12]

[12] In a Australian Broadcasting Company (ABC) radio interview, Mexican economist Rogelio de la O stated in 2009: "Even strong companies that are subsidiaries of international firms are very, very

America's bankers

The graph below looks at four distinct years and decomposes the ownership of US assets (public and private) by non-US government or government controlled financial institutions. It is clear that after 2003 America's old *protégés*, Europe and Japan, are fading as its financial supporters. The Chinese state is, meanwhile, pushing its contribution through the roof. In this sense, the *Minotaur*'s recent travails have posed a serious threat to the US assets that China already owns.



Increase in US assets (in $ billion) owned by foreign state institutions

America's conundrum in the face of stupendous Chinese growth is that the *Crash of 2008* stopped the *Minotaur* from quickmarching the Chinese to its tune. Up until then, the Chinese depended upon the *Minotaur* for their trade surpluses and were, thus, forced to reinvest them in the United States, either by buying US government debt or in the private sector. With the *Minotaur* no longer capable of absorbing increasing quantities of Chinese goods, at a rate similar to the pre-2008 period (especially now that China has shifted production to high-tech, big item products like superfast railways), China does not automatically need to send all of its capital to New York.

This leaves China with only one reason for investing hugely in US assets: the fact that it has already invested hugely in... US assets and does not want to see its people's accumulated hard labour lose much of its worth were the United States to be hit by a public debt crisis. At the same time, and despite its public proclamations, the United States' government does not have the backing of a large segment of American corporations to pursue a *Plaza*-type agreement that would see the RMB slide against the dollar. Unable to expand its deficits, like it did when the *Minotaur* was exploding with youthful energy, and lacking the clout to do to China what it had done to Japan in 1985, the United States is finding it hard to decide how to deal with China.

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discouraged at the way their volumes have fallen and their margins have been totally squeezed. The China effect is kind of overwhelming."

China too, unable to secure sufficient demand for its industries in the absence of a roaring *Minotaur*, is in a bind and has ended up responding in surprising ways. For instance, Brazil's Central Bank revealed that, while in 2009 China's foreign direct investment in the Latin American country was only $300 million, in 2010 it rose to $17 billion. Why? What was China up to?

As everyone knows, for a while now, Brazil, Argentina etc. were being enriched by the Dragon's purchases of iron ore, soya beans, oil, meat etc. But, when the *Global Minotaur* perished in 2008, and these economies continued to grow on the back of their primary exports to China, their currencies shot up in relation to the dollar. Consider three immediate effects of these developments:

First, Latin American high growth rates attracted a new *carry trade*, this time from the United States whose growth rate and interest rates hovered around zero, thus motivating a capital flight away from America.

Secondly, new Chinese industrial imports rushed into Brazil and Argentina as their local prices were falling, in view of the local currencies strengthening vis-à-vis the dollar (and, by pegged association, the RMB).

Thirdly, to perpetuate this cycle, China increased its investments in Latin America. Now, this third development is of some significance. Up until recently, China would invest in Africa and elsewhere in projects the ultimate purpose of which was to secure raw materials for its domestic industries. With these new investments into countries like Brazil, China seems to be pursuing a new strategy: That of creating something like its own *Global Plan*! Of directing part of its outbound capital flows to countries other than the United States in an effort to stimulate, there, in those foreign places, demand for Chinese goods.

The broader significance of China's relation to the rest of the emerging nations comes in the form of clues on how China will seek to address the gaping hole left in the overall demand for its exports by the *Minotaur*'s 2008 misfortune. What is clear is that China, the United States and the rest of the emerging nations will, from now on, engage in a triangular game of chicken. With no dominant party in sight, and no clear objectives for any of them, the prospects of a new, efficient (formal or informal) *Global Surplus Recycling Mechanism* seem slim and distant. Which means that the *Minotaur*'s legacy is a rather bleak one for the world economy.

Epilogue: Between the West's Bankruptocracy and the East's fragile strength

Judging by the mood in the centres of power, that which we used to call the *Third World* is having a good crisis. The 'emerging economies' are growing at the expense of Europe and the United States, the two loci of long-established capitalism which, regrettably, have spawned a new socio-economic 'system': *Bankruptocracy*.

The *Global Minotaur*'s 2008 moment has raised the prospect of a worldwide realignment. And yet, the *Minotaur* is still in the room, threatening to wreak havoc. Wounded it may be, perhaps mortally, but its imprint is still all over our world. When it was hurt, and Wall Street's near-collapse sapped its energy, America's abandoned *protégés* failed to rise to the occasion.

Europe entered a crisis of its own device which is endangering sixty years of European integration. South East Asia found itself more dependent than before on a powerful neighbour, even if this time it is not Japan but China. Japan itself, which had its own recession well before the *Minotaur*'s infirmity, seems to have made its peace with stagnation.

Of all the major non-US economic powerhouses, only China is dynamic enough to pretend to the *Minotaur*'s sceptre. But China knows it cannot yet perform that illustrious role, unable to create demand even for its own output. Its most recent efforts to create its own *Global Plan*, in particular in relation to Latin America, stirred up tensions with its potential *protégés* (e.g. Brazil), reminding us that America's own *Global Plan* only came to pass with minimal resistance because, at the time of its design and implementation, the rest of the world laid in ruins.

Some think that China only needs to bide its time, certain that in its fullness it will prevail. The Chinese leadership is less sure. They understand intimately the scarcity of total demand in the post-*Minotaur* world. They know that Germany, Japan and China are all fully reliant for their very survival on maintaining aggressive, expanding surpluses. But this also requires someone to absorb those surpluses as deficits.

That someone used to be the *Global Minotaur*. Now, it is gone and nothing seems likely to replace it. To buy time, the Chinese government is stimulating its growing economy and keeps it shielded from currency revaluations, in the hope that vibrant growth can continue. But they see the omens. And they are not good. On the one hand, China's *consumption-to-GDP* ratio is falling; a sure sign that the domestic market cannot generate enough demand for China's gigantic factories. On the other hand, their fiscal injections are causing real estate bubbles. If these are unchecked, they may burst and thus cause a catastrophic domestic unwinding. But how do you deflate a bubble without choking off growth? That was the multi-trillion dollar question that Alan Greenspan failed to answer. It is not clear that the Chinese authorities can.