

Capitalism, advanced and “transitional”, unfolded during the financial crisis*

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Abstract

During the crisis, it became evident that the kind of capitalism that was becoming dominant in the developed world over the last twenty or thirty years, so-called it financial capitalism, was the cause of crisis or at least it cannot completely exculpate itself. The growth in debts, credits, finance in general, changing behaviour of financial institutions and bankers, traders, financiers, their very short-term horizon, their huge bonuses, high bank profits, for capitalism unaccepted morals are some of the things, which have come to the surface. How did the financial crisis start and spread out to the whole world; how were the transitional economies of former Yugoslavia affected; what was the theoretical or ideological foundation for the capitalism we had; what is the morality of capitalism or a market economy – these are the questions touched upon in the first chapters. At the end, and as a conclusion of the paper, there are thoughts and/or ideas about the changes in capitalism to be expected. Financial reforms are crucial for the developed world and they may trigger more profound changes. For transitional economies such reforms are neither essential nor sufficient. The financial crisis has just exposed their problems as more serious and more difficult to overcome than previously thought. Their problems are largely the problems of the real sectors of their economies.

Key words: capitalism, financial capitalism, transitional economies, financial crisis

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1. Introduction

The changes in economic institutions, in their behaviour, and in the behaviour of bankers, traders, financiers, top managers, business leaders in general that have been going on over the last twenty or thirty years in the most advanced economies, have suddenly unfolded in a very unpleasant way. These changes unfolded as a surprise to the majority of economists and others². The financial crisis that began in autumn 2007 and by mid-September 2008 grew to alarming dimensions, spread out to almost the whole world and was transformed eventually into a full-blown economic crisis. Because of the wide spread belief that the crisis is connected with the capitalism that has been evolving over the last decades, we are interested in this capitalism found in the most advanced economies. If it is true that it was the cause of the crisis, then it is poised to undergo some changes. And if capitalism as we know it today does change, what changes are to be expected in the developed world and in transitional economies of the part of Europe where former Yugoslavia once existed. The countries of former Yugoslavia once had the same economic history. All of them had, for instance, a specific variety of socialism with social ownership of (non-financial) business enterprises. This peculiarity, that used to be important back then, became irrelevant once transition kicked-off. The matter of the fact is that these countries were eager to erase their common economic history that could have been useful to them during transition, i. e. in changes in the ownership of business enterprises.

In the first chapter we just touch upon the roots of the crisis and describe how it spread from the country where it all started. In the second chapter we present how the above mentioned transitional economies were only indirectly affected by the financial crisis. But it will be seen at the end of the paper that they were seriously although differently affected by the crisis later on.

Other chapters are focused on the kind of capitalism in place in the most advanced economies blamed to be the root of the financial and economic crisis. In view of that, we talk about economic liberalism in the third chapter. Today's economic liberals and/or neo-liberals have most of the time an unquestionable authority to lean on such as Adam Smith, but they have no right to usurp him as their icon. Adam Smith analysed the roles to be played by the state and by the market in the economy in his main book widely considered as advocacy of the market and contrary to the overwhelming and damaging role of the state during mercantilism. But this question has been important until now and it cannot be resolved once and for ever. The roles of the state and of the market have been changing over time and something will also

² There are always some with dissenting opinion and it has been the same in this case. There was no surprise to them when the real estate balloon exploded, but they were not able to change the general mood. The most important is probably Edward M. Gramlich, who in August 2005 resigned as a member of the Federal Reserve Board, because he did not agree with a rather expansionary monetary policy in the presence of the real estate and mortgage loan balloon.

be dealt with in this chapter. The question of morals and of morality of capitalism we had in the last twenty to thirty years that came to the surface during the crisis is analyzed in the fourth chapter.

The kind of capitalism we had and/or have developed over the last few decades has led to the growth in debts, credits, finance, to the highly leveraged firms in general and not only banks, as it was usually the case, or to the financial capitalism, as some say. This is the topic of the fifth chapter. In the last chapter we discussed what changes in the financial system are expected in general as a consequence of bad experience with capitalism we had. Transitional economies of the region we are interested in are still special. Their main problems are namely not finance and, consequently, a financial reform, but much deeper problems that came to the surface during the crisis or because of it. We must say something about it.

2. Beginning and the spreading out of the financial crisis

The opinion how the financial crisis started, what triggered it off, is more or less unanimous among economists³. It started with default of some who could not service their mortgage loans any more. Borrowers did not come in such a position because the economic situation changed. They were not creditworthy already at the time when mortgage loans were given to them. They were the so-called sub-prime borrowers. But, nevertheless, had these loans remained in the balance sheet of banks who granted them, it would have been much less serious. It would have ended much earlier and there would have been much less damage. But mortgage loans were because of securitisation removed from banks' balance sheets. securities were issued on the basis of such loans by the so-called shadow banks (Adrian & Shin, 2009) to which the mortgage loans were transferred. These financial institutions financed themselves on the money market by issuing short-term securities. They were called banks, although they did not give loans, because they enabled just like banks, maturity transformation of funds via their balance sheets. They were shadow banks because they were not treated as banks by regulatory and supervisory institutions.

But it is still not the end of the story with shadow banks we started to tell. There were several layers of shadow banks. On the basis of asset-backed securities, shadow banks at the next layer issued collateralised debt obligations (CDOs). Then there were shadow banks at the next layer that issued CDOs square on the basis of CDOs and further up shadow banks issuing CDOs cube on the basis of CDOs square (Ashcraft & Schuermann, 2008).

³ It has been already thoroughly explained by many authors (Aglietta, 2008; Krugman, 2009; Rajan, 2010; Reinhart & Rogoff, 2010) and many new books and articles will be forthcoming in the future.

All these institutions were financed on the money market and most of the short-term financing was done by banks but not only in the USA but also around the world. The huge or multiple superstructure of claims and/or debts was erected on the debts of sub-prime mortgage loan borrowers. On hindsight, it was just the question of time when this superstructure of claims and debts would collapse. Nobody, at least from those who had influence and power, saw what was the foundation of a tremendous increase in loans, credits, claims, debts and real estate prices, profits of banks⁴ and bonuses of bankers and traders.

When we say foundation, we mean who the borrowers or debtors were at the beginning or at the end the layered structure of claims or financial institutions. But claims and debts did not come out of thin air. There was an abundance of savings arising from the balance-of-payments surpluses of China, oil exporting and other countries that had to be absorbed by deficit countries. The USA was a desired asylum for those funds and at the same time the USA was not reluctant to absorb those funds. Expansionary monetary policy, balance of payments and federal budget deficits created macro environment for increase in credits, debts, claims. Reluctance of households to go into additional debt was overcome partly by low interest rate, at least at the beginning of the repayments of loans, and largely by offering mortgage loans to those who could not afford them – in normal times. More precisely, to sub-prime borrowers.

Once the fears of the inevitable global financial meltdown materialised at the end of 2007 or spectacularly on 15 September 2008, when Lehman Brothers collapsed, very soon the financial crisis spread out to almost all countries and after some time, it changed into an economic crisis. Because banks did not know how much affected were other banks with the so-called toxic assets, borrowing among banks almost disappeared. After some time they could not or did not want to give loans to business enterprises either.

During the crisis, even those who thought that they were familiar with the functioning of financial markets and institutions learned a lot. It is, for instance, the role of originators of mortgage loans, of traders, of shadow banking, of bankers' bonuses, of bank profits, how bankers and traders create value. We will deal with some of these issues later.

⁴ It was something usual before the crisis that in banking profits after taxation were 25 percent and more (Dibelius, 2009). Normal profits are something different. Average annual total return, it means rate of profit plus rate of appreciation of the value of shares, in all companies in the USA in the years 1926 to 1986 was about 9% (Sharpe & Alexander, 1990). Under normal conditions it should not be much different in banking. But probably banking has never been under normal conditions, but not as abnormal as before the crisis. Profits in banking were usually greater than in other industries, even two times greater (Morris, 2008). One of the explanations is that banks usually went into risky businesses that brought them high profits. When they came into trouble, and it inevitably happened, they were rescued by the government. So the average profit remained much higher than in other industries.

3. Transitional economies in the financial crisis

The transitional economies of the region we are interested in (Slovenia, Croatia, Macedonia...) were not affected by the financial crisis directly. Their banks had almost no toxic assets although they had quite some foreign assets. They were predominantly in euros either as deposits placed with European and other banks or as short-term corporate and government bonds. More or less the same applied to their central banks. Due to sterilised purchases of foreign currency, i. e. euros, the major part of their assets were foreign assets.

The banks were not affected by the crisis immediately but after some time the banks in the countries where the banks were extensively financed in the foreign financial markets, were not able to be refinanced abroad. Their balance sheet started to shrink and they were not able to give or renew loans to business enterprises. More or less at the same time the financial crises turned into an economic crisis and a decrease in production, employment and GDP in the developed European countries decreased demand for imports from the transitional economies. So more or less parallel to the decrease in funds available to banks, there was a decrease in demand for funding by business enterprises. Production, employment, GDP decreased later but much more.

But the pattern was not the same everywhere. The banks operating in the countries like Slovenia that with open economies and where banks mostly turned to foreign financial markets for financing were in the worst situation. There were two reasons for it. Savings of households went only partly into bank deposits, as substantial part of savings went into shares of various investment funds and through them abroad. But on the other hand, business enterprises were financed only through bank loans. As concerns domestic savings, there was a gap and this gap was eliminated by banks taking loans or issuing securities abroad. This was the case for the countries that had free access to foreign funds and this turned out to be bad when the financial crisis came from the developed Europe. What happened was that due to a loss of trust among banks, there was no more free access of those funds for them.

The countries that were not so open and where banks were not able to tap funding from abroad at all or could do it at a reasonable price were in a much better situation. Banks in such countries were almost completely financed at home with bank deposits. These countries were not affected by the financial crises at all, like for instance Macedonia. They were affected later, of course, by recession in their most important trading partners in Europe. In some cases they were hit severely. This time they, and other especially financially less developed countries, were paying for the mistakes of those with an advanced and sophisticated financial system in place.

Transitional economies have been striving from the very beginning to copy as far as possible the institutional arrangements of the most developed and biggest economies. But the copies turned out to be in many ways far away from the original, something

was missing or wrongly understood as a rule and, what is most important, inadequate for them. They will probably adapt to the changes once a critical analysis of the deeper causes of the financial crisis are not only known but accepted by the majority. But their problems are in the real sectors of the economy and in their competitiveness. What is needed is a thorough redesigning of the economic landscape.

4. Economic liberalism

The words most frequently used in the last few years have been (economic) liberalism, neoliberalism, conservatism, neoconservatism and they were attached to the capitalism that became, if not dominant, than at least was gaining in importance during the last twenty years. The financial crisis that erupted at the end of 2007 was just its logical consequence. This is at least opinion of the majority of economists⁵.

But if we should stay for a while with economic liberalism, then it is Adam Smith who comes to mind first. For (economic) neoliberals or neocons, Adam Smith is an icon. But it will be seen that they took Adam Smith for their predecessor or icon probably wrongly. There are no reasons for it. Above all, Adam Smith was a moral philosopher. After the book “The Theory of Moral Sentiments” (1759), he published in 1776 “The Wealth of Nations”. The book is in the first place a criticism of mercantilism. In all of many books written about Adam Smith, the most recent one is for instance by N. Phillipson “Adam Smith. An Enlightened Life” (2010), one can see that he does not have much in common with neoliberals or neocons.

When writing his major book, Adam Smith had in mind mercantilism, a doctrine dominant at that time. The basic idea of mercantilists was that the wealth of nations was money; therefore, the state must support those industries that make goods for export because only so the money or gold would come into the country. The state must interfere with the economy because otherwise the country would not be running surplus in its trade balance, i.e. as we say now, in its current account. Although the idea that the wealth of nations is in money looks pretty strange nowadays, we can still find a rational explanation for it.

At that time, there was a gold standard, and more than that the gold determined the value of money, was important another characteristic of the gold standard. The quantity of money could increase only if the available quantity of gold increased. Otherwise, the prices of goods should be more or less permanently decreasing. It was, of course, important that more or less parallel to the increase in production and

⁵ There are, of course, dissenting views. Some think that the crisis erupted because there had been too much Government and regulation (Salin, 2010). But otherwise liberals or neoliberals have, at least for some time, disappeared from the scene.

trade, the quantity of monetary gold increased. But as Britain had no gold mines, the quantity of gold could increase only if it came from abroad – on the basis of a surplus in the country’s trade balance. Therefore, the idea that the state should support those industries, which make goods for export, was not that much strange, or, maybe better, can be explained.

Of course, the international monetary system would have been inconsistent, if the mercantilists had been right. The fact is that it is not possible for all countries to have a surplus in the trade balance or current account. Nowadays, we have, for instance, similar inconsistency, if we make a short detour, within the euro area. All countries should be like Germany and there would be no problems with the euro. But Germany needs countries that are different from it, maybe not just Greece but similar countries with deficits in their current account so that Germany could be strong and prosperous. A sum of the surpluses of the countries with a current account surplus is equal to the sum of deficits of the countries with deficits in their current accounts, if we do not take into account a small systematic mistake – a ‘missing surplus’ (Krugman & Obstfeld, 1991).

If we still stay with money, money and/or monetary theory was at that time and long time after the only macroeconomics, we must mention a Scottish economist John Law (1671-1729). He succeeded in persuading the French even though the Scots did not believe him, that it is not important that the money should be convertible to gold and/or that the banks issuing banknotes had either hundred percent or partial reserves in gold. This idea was very advanced for that time but when put into life it had disastrous consequences. Although we know now that what is important for banknotes is that people accept them as money and not what covering or backing they have.

He established the bank *Banque Générale* and after it *Banque Royal*, which issued money, i.e. bank notes, according to his ideas. The volume of loans and banknotes started to increase and soon, in 1720, there was a bankruptcy. A lot of people lost their wealth. John Law was lucky enough to leave France and so avoid prison. But his legacy continued to linger on in France for a long time. From the bankruptcy of his bank until the last quarter of the nineteenth century, i. e. approximately for 150 years, no bank that established in France dared use the name bank. Therefore, even today, all those old banks still have for the banks unusual names like “*société*”, “*caisse*”, “*crédit*”, “*comptoir*” (Kindleberger, 1985). The only exception was “*Banque de France*”, established by Napoleon in 1800. He obviously did not take into account prejudices and the importance of the memory of people. It was anyhow obviously not that much necessary for the bank that was monetary authority. Monetary problems and the problems of the role of the Government in regulating the quantity of money under gold standard were present before Smith. But he did not see solutions in mercantilist ideas. He spent some time in France and met Quesnay and

other ‘économistes’, and they were the only economists whom he took seriously⁶, but he could not accept their teaching – for instance about agriculture (Phillipson, 2010).

Smith’s economic writings were focused against mercantilism and championed market economy without unnecessary interference of the state. In his advocacy of the market, he sometimes went too far. Let us mention just one case that we find in Karl Polanyi’s book (Polanyi, 2001) published in 1944. It is Smith’s “the propensity to truck, barter, and exchange one thing for another” as something in human nature. We mention it not because it is so important but because nowadays there are ideas in transitional economies that are in accordance with this propensity, it may mean scientifically founded. This is idea that almost all should open up businesses and so the problem of unemployment in transitional economies would become less acute or be eliminated.

Smith’s book is a monumental work, but it is not a founding scripture of capitalism. It explains why market without interference of the state is of such importance. The state is for him the state with mercantilist philosophy. Smith does not use the word capitalism at all. In his time this word was still unknown. It is Marx and Marxists who introduced the word capitalism and used it much later. It may be interesting that for Amartya Sen (2009 and 2010), who writes about moral question, the problems of misery and how to decrease it, and the problems of justice (2009a), Smith is at the very top among economists. Among younger or Cambridge economists his preference is, what may be interesting, Arthur Cecil Pigou and not Keynes.

Smith belongs already for a long time among classics that often means that people do not read their books. It may be one of the reasons why people connect his name with “the invisible hand”. It is usually enough to mention the “invisible hand” to prove that the market should be left alone without any intervention. Emma Rothschild (Rothschild, 2001) read all his writings and found the “invisible hand” only three times. It was mentioned once in “The Wealth of Nations” and two times in other texts, but always ironical. When there were celebrations on the occasion of the hundredth anniversary of the publication of The Wealth of Nations, nobody mentioned the invisible hand. And even long time after that nobody thought that it is the substance of Smith’s writings. It may be interesting to know why it has changed.

Smith explained why contrary to the ideas of mercantilism, the state should not interfere with the economy, the market would ensure the best solutions, but he did not answer the question once and for ever what part or role should be given to the

⁶ There was Richard Cantillon, an author of Irish descent, whose book “Essays on the Nature of Commerce”, published in 1755 in French, translated into it from English, was or could have been as important as Smith’s book (Robbins, 1998). Smith could not have met him since he was already dead at that time.

state and what part to an unbridled market. At his time, the role of the state was obviously very small. But the role and importance of the state has been changing – on the whole, increasing.

Michel Albert (Albert, 1991), for instance, has studied the advantages of the so-called Rhine’s capitalism (“*modèle rhénan du capitalisme*”), i.e. German and French capitalism, and compared it with the Anglo-Saxon capitalism. Although German and French capitalism is at least to him better than the Anglo-Saxon capitalism, it is an uphill battle.

He has divided the period until 1991, when he published his book, into three-hundred-year periods that differ in what kind of capitalism existed. In the hundred-year period that began with 1791, there was capitalism that opposed the state (“*capitalisme contre l’État*”). At that time, Smith’s ideas took hold over mercantilism. In the next hundred-year period that begins with 1891, we had capitalism constrained by the state (“*capitalisme encadré par l’État*”) and this is familiar to everybody. And then we have a hundred-year period that begins in 1991, it is the period in which we live, we have capitalism, where there is the market instead of the state (“*capitalisme à la place de l’État*”) ⁷.

For a victory or better for an ideological foundation of the Anglo-Saxon capitalism, or maybe better, for the supposed victory of this variety of capitalism, because there are still seventy years ahead of us, a major part of credit goes to the Europeans, who all of them originated not far from us. They were from Vienna and its neighbourhood. This is at least the opinion of the British historian Tony Judt (2009). It is a group of five: a philosopher Karl Popper (1902-1994), and the economists Ludwig von Mises (1881-2005), Friedrich von Hayek (1899-1992), Joseph Schumpeter (1883-1950), and Peter Drucker (1909-2005). All of them emigrated either to Great Britain or to the USA when Hitler came to power.

They lived during the First World War and its aftermath in the country that lost the war; during revolutions that were tried but did not succeed, under temporary Government led by socialists and/or left parties, under the rise and terror of fascism. T. Judt thinks that their tragic personal experience finally led to their firm belief that the incompetent left parties that came to power after the war are to be blamed for rise of fascism. Fascism was a reaction to incompetent left politicians.

They were highly respected in their respective fields of research. The greatest among them was probably J. Schumpeter. His ideas were treated at his time as conservative. He was for instance an ardent opponent to J. M. Keynes but, nevertheless, highly

⁷ A bit different classification can be found with Dani Rodik (Rodik, 2011). Smith’s lean capitalism (Capitalism 1.0) changes into Keynes’s mixed economy (Capitalism 2.0) and now the global economy needs capitalism with global governance (Capitalism 3.0).

respected. K. Galbraith said for him that he was the most sophisticated among conservative economists. J. Schumpeter said for himself, that he was a conservative, but that to his kind of conservatism did not belong anyone, that thought for himself that he was a conservative (McCraw, 2007). All of them thought that it was their duty to prevent that left parties came to power by erected ideological or theoretical foundations of economic liberalism – the small state and little interference of the government in the economy.

A welfare state and social democracy that were characteristics of many European countries in the period that is disappearing, according to M. Albert, after 1991, usually functions the best in small and ethnically homogenous countries. For T. Judt these are the reasons there are almost no possibilities for the social democracy to succeed, for instance, in the USA. There is still one important observation made by a historian. In the last thirty years, all changes that happened in the Anglo-Saxon world were not evaluated on the basis of whether they were good or not, but only whether they were efficient, productive and whether they increased the value of GDP. On the surface, it may be flattering for economists that economic efficiency is so overwhelming, but as economists are probably human beings as well, it is probably worth thinking about it.

5. Market economy or capitalism and morality

Smith talked about capital but did not use the word capitalism. He talked about the market. Nowadays is the word capitalism in the general use. If anybody talks about a market economy, he may raise some eyebrows – at least in some circles. But it is generally accepted that a market economy and capitalism should mean the same, although sometimes it seems that the word capitalism is ideologically loaded. Just because of that there are some who do not use the word capitalism. A. Sen is one of them, although what he has been doing is thinking and analysing capitalism and writing about it. Fernand Braudel (Braudel, 1985) makes a distinction between market economy and capitalism, market economy B, but from the point of view of historical development. Market economy A developed into market economy B.

When we talk about market and the market economy nowadays, two things are important. What goods and services should be provided by the market and what goods and service by the state or otherwise, is the first thing. The second question is to what extent and how the market should be regulated and controlled. At the moment the questions of a paramount importance are to what extent and how to regulate and control financial markets, financial institutions and financial products. These questions are the only important ones and the answers to them are much more difficult to find. It is very easy just to say and demand less government and more market or vice versa.

Over the last twenty to thirty years, there has been, in the Western countries, and later on also in the transitional economies, a step-by-step crowding-out of the state by the market. As has already been mentioned, the academic economists contributed a lot to this. And it had not been happening, for instance, in the USA only under Reagan but also under Clinton. Michel Rocard (Rocard, 2010), who is not at the extreme, thinks economists should abandon all ideas of M. Friedman and his 13 colleagues from Chicago, who were awarded the Nobel prize for economics. He thinks that one can compare what has been happening with economics now and/or will be happening in the near future is similar to the situation, if it has been discovered in medicine that everything is wrong after L. Pasteur (Rocard, 2010) and it has been taken as true until now.

A market economy or capitalism has its moral principles, that are respected, if we put aside its beginnings when the first capital had been created – for instance with enclosures in the UK. The problems with the transitional economies or with people living there is that they must watch how the first capital is being created in front of their eyes. Their opinion what is correct, equitable, fair has been quite different from the opinion of those who lived several hundred years ago when capitalism was at its beginning. They simply cannot accept it and because of that one cannot put a label on them as being against capitalism or market economy or being nostalgic for the old times and socialism.

What is moral and what is not in the old market economies is probably connected with what is essential and unavoidable in business or economic organisation of the society. the first premise is we do not know what future holds in store for us; nevertheless, business decisions have to be made. It means that almost each business decision is associated with risk and/or uncertainty. Unpleasant as it may be, it is necessary that there are enough of those who are prepared to take risks or make decisions under uncertainty. Welfare of all depends on it.

If some of those who go into business succeed, and there are usually always some who succeed, it is acceptable for the society and in this way morally if they become rich. It is nothing wrong, it is moral, if the cause of wealth, accumulated to some, is their preparedness to take risky business decisions or decision which outcome was uncertain. Their wealth or additional wealth is only part of the wealth created because they were prepared to take risk. There may be different opinions how much of additional wealth should go to them, what is the fair amount, but we cannot say that this additional wealth going to them has anything to do with immorality, if we are in capitalism or a market economy. Accumulating wealth or becoming rich in other way, i.e. without taking risk is morally unacceptable.

What turned out to be unacceptable and frustrating during the financial crisis was that bankers, traders and financial wizards had been accumulating tremendous wealth not only without creating any but even at the same time destroying it. This was without

doubt absolutely immoral behaviour and it probably has led to disillusionment and to the question how it was possible. But it is not that much the question of rapacity of bankers and others but much more how was it possible. What was wrong with institutions that something like that may happen? As the accumulation of wealth in the hands of few has been happening more or less from the beginning in transitional economies, i. e. at the same time as in the old capitalism, the causes and the mechanisms had not been the same. Similarities are only superficial.

But even in cases when we cannot say that accumulation of wealth is immoral, if we have market economy, it is in accordance with the rules of the game, for majority of people is not acceptable great wealth on the one side, in the hands of a minority, and poverty on the other side. J. Daniel (2009) cites the words of the president Roosevelt, who said at the time of the great crisis in the thirties of the last century, that if in the case that there is no hope that capitalism can be made moral, because it is something contrary to its nature, and its nature is big wealth on the one side and poverty on the other, then at the end what is left for us is collectivisation. We know that there is not only hope but that there are varieties of capitalism, for which one cannot say that it is in any way immoral economic organisation of the society.

6. The growth of credits, debts, finance

The difference between today's economies and the economies twenty or thirty years ago is, if we look at the balance sheet of non financial business enterprises, something that is not hidden, it is their financial structure. There are much more debts, bank loans and securities, on the liability side. Most of it is debt to financial intermediaries. Importance of financial intermediaries increased and the importance of finance in general. Some talk about “finansiarisation” (Plihon, 2001), if the French word is used, or about “financiarisation” (Aglietta, 2005), if the English word is used. The value of all financial assets, namely gross and not net assets – if we go with netting far enough financial assets disappear – is several times greater than the net value of all assets in the economy. We can talk about financial capitalism because assets of business enterprises and households are predominantly financial. It means that there are widespread interconnections between economic units, business enterprises, households, and we should add the Government, via financial claims and liabilities or debts either directly or indirectly via financial intermediaries.

Dominant or at least very important owners of business enterprises are institutional investors (pension funds, insurance institutions, investment funds), and they usually behave as “punters” and not as proprietors. They are not interested in the long-run survival of business enterprises. Furthermore, for instance, it looks that the meaning or concept of value has been adapted to the economy where finance is so important.

The value used to be the most important category in economics or in political economy. It is used also now, but value is, for instance, only being added in business enterprises or production - and not created. Value added or “valeur ajoutée” in French has been used also in everyday language; many times in strange meanings. When some people talk, for instance when politicians talk nonsense, they are adding value. There are newspapers that are proud of it that they are adding value. There is still value creation, but the value is being created only on the financial markets. During the financial crisis the value had been destroyed – probably in greater amount than it has been created in the last years or in the last decade. If value is being created on the financial markets it is not unusual that Goldman Sachs and its first person Lloyd Blankfein said that they had been doing God’s work. They had been creators.

Some talk about casino capitalism when they have in mind financial capitalism, because securities, for instance stocks, are taken as slips of paper on horse races or chosen number on the roulette. But this comparison is probably only partly correct. It probably looks so from distance and without thinking about it. At horse races or in casinos those who bet can in no way influence the outcome – disregarding how much money they put on their favourite horse or particular number. We suppose, of course, that it is a fair play. But on the financial markets is not quite so. Players, those who bet on securities, can influence its price – the thinner is the market and/or the more players are of the same opinion. If this would be the case for betting at horse races or on numbers on the roulette, it would be an unfair game and it would be prohibited. Therefore if we talk about casino capitalism, we should add that it is casino, but there is no fair play. Otherwise horse races and casinos would be discredited.

7. What changes are to be expected in general and in transitional economies

Changes in the capitalism that have been taking place in the last few decades, namely the greater role of the market or capital instead of state, deregulation, increase in debts and indebtedness of business enterprises and households, increase in sophisticated financial instruments that was supposed to enable participant on the financial markets, because of spreading out of financial risk, to expose themselves without danger to much greater financial risk. Because there was, for instance need for new and additional borrowers, the new ones who go into debt that the expansion of debt might go on, loans, namely mortgage loans, were offered, in the first place in the country where the crisis originated, to those that could not afford them. They accepted them, because the terms of the loans were unrealistically attractive (“teaser” interest rate, expected further increase in prices of houses or flats...). There was, in addition and not caused that much or not at all by deregulation, pressure of shareholders, for instance pension funds, for quick and high earnings. Top managers were evaluated according to short-term results.

Spreading risk via sophisticated derivatives did not decrease the risk but it increased it. The new class of borrowers and debtors, that were not credit worthy, had the same effect. Enormous funds due to the balance of payments surpluses of China and some other countries were looking for asylum, in the first place in the USA, and they were accepted. They enabled increase in credits and debts in the USA but they were not the cause of it. Even less to be blamed for the funds to be directed towards real estate with the help of shadow banking, sophisticated derivatives and those, who could not be able to get mortgage loan without sophisticated financial engineering.

The economic crisis that it said to be a long one, i.e. a long recession or depression, contrary to the one eighty years ago that was a great depression, revived interest in the depression economics and Keynes (Krugman, 2009). Maybe even more the interest in Hyman Minsky (Minsky, 1986) who has analysed instability of the financial sector that was inseparable connected with finance. More the financial sector is developed, the greater instability. Financially deeper an economy is, the greater the instability. There have also been other revivals; for instance of Marx. If we do not take into account gatherings of Marxists, or those, who call themselves so, named by some "*happenings rouge*" (Lancelin, 2009) that were triggered by the crisis, interest in Marx revived earlier. Probably in connection with globalisation. Meghand Desai (Desai, 2002) wrote, for instance, that Marx would have been enthusiastic about globalisation that proved him right. It is a kind of revenge of a forgotten man. For Jacques Attali (Attali, 2005), who never before read Marx and was never a Marxist, Marx was the first who thought globally and should be treated as "*l'esprit du monde*".

But countries cannot wait for the answer to the question of the deeper causes of financial and economic crisis and, besides, there will not be consensus on that, to start reforms and changes in institutions, regulations, control, and policies. Changes that are being prepared, and in only few cases already implemented, are prepared piecemeal and very seldom or even not at all globally. For the obvious reason financial sector is on the agenda, although finance is just sublimation of the ideology of the existing capitalism. Some call it financial capitalism or capitalism whose characteristic is the financierisation of the economy. But changes cannot be introduced otherwise. Only finance is something where the most important relations between transactors or economic agents (non-financial and financial businesses, households, Government) are not only visible but also quantifiable, although finance consists only of claims on the one and liabilities on the other side, i. e. of something completely intangible.

Most changes are being prepared and only partly already implemented for the banking sector. Its losses were the biggest and major part of Government money went into banks. Retail banking and/or commercial banking provides public services, loans to businesses and households and payment mechanism, and it cannot be left to go bust. This part of banking will be separated from other banking, where the Government will not try to save if it comes into trouble. On the other side consumers, buyers

of various financial products will be protected with advices and suggestions from special public institutions so that there would be for instance less predatory lending to households. Other financial institutions would be probably under stricter control and they would be less leveraged financial institutions. Rating agencies are being re-examined, the role of the central bank will be increased not only because of its more serious responsibility for financial stability. All in all, one can expect that there would be probably changes in capitalism; either for good or only for some time, before the logic of “the market instead of the government” took hold again. If, of course, M. Albert was right. But is it true also for the transitional economies?

The transitional economies that used to be a part of Yugoslavia, as already mentioned, were affected by the crisis later and indirectly. Difficulties appeared at first at renewing their loans with foreign banks and in the foreign financial markets. Later, due to decrease of their exports unemployment went up, and production and GDP went down. Some of them have not hit the rock-bottom yet and all of them will need several years to achieve their pre-crisis level of GDP.

Their economies were not financially developed; financial deepening has not gone very far yet. They did not have a financial capitalism, but, nevertheless, finance played an important or even damaging role for the economy and population. Looking at the finance from far away so that details were not seen, it seemed that there was something going on similar to what was going on in the developed world. A small group of important people at the top was getting rich and majority of population remained poor. Unemployment was increasing and GDP was decreasing. Just like in the economically developed world.

But it is true only superficially. In the developed world, bankers, traders and financiers had to show ingenuity or imagination to invent, for instance, highly sophisticated and usually unintelligible financial products and to sell them, if they wanted to become rich. Once the crisis erupted, they were at least identified as those who were to be blamed⁸. In transitional economies there was no need for ingenuity, invention, trouble with the sale of something nobody knew its value. Legal and economic system allowed managers and other important people to accumulate enormous wealth that had not been newly created but the existing wealth, created by previous generations of workers and that belonged to all. As everything was usually done according to law, they are not to be blamed.

Accumulation of wealth, in a way unacceptable in developed countries, has been going on almost since the beginning of transition. Cheap money and its abundance, also in transitional economies before the crisis erupted, only accelerated it. The

⁸ After the crises erupted, the bankers were the most criticised group of people (Stiglitz, 2010; Soros, 2008...), but generally nothing worse than that happened to them.

financial crisis and problems that banks encountered stopped this process of the accumulation of wealth for the time being.

The economic landscape of transitional economies after the crisis is worse than before, but for them it is not finance that must be put in order or it is far from it to be enough. For developed countries the reform in the financial sector may turn out to trigger other necessary changes. In transitional economies not much may be repaired by finance alone. Business enterprises are in the hands of those who are not proprietors and even less entrepreneurs. They are speculators. Business enterprises are not competitive, although the wages are not the main problem.

Therefore, it is obvious that they have been running current account deficit, but there had not been such problem or problem at all so long they balanced it with proceeds from the sale of business enterprises (banks were the first) and from foreign loans. According to the doctrine that had been offered to them and they accepted it, it is exchange rate that must be stable, preferable under a fixed exchange-rate regime, and the balance of payments that would result would be appropriate one. This doctrine came even into the Maastricht criteria, at least it looks so, because there is no obligation for the country entering the EU as concerns its current account. We know now that the problem of Greece, Ireland and Portugal is in the first place the current account⁹.

The EU Member States, for instance, at least according to this philosophy, must prefer conferring membership on the countries with current account deficits. Surplus countries may cause balance-of-payment problems to them. In the case of transitional economies, the developed countries could not have suggested them to take care of their balance of payments. It would be against their interests. The developed countries wanted in the first place markets for their exports and freedom for their capital to buy business enterprises, offered for sale during privatisation. Transitional economies could not have met that wishes without being prepared to run balance-of-payments deficits. And these wishes of the developed economies have been fulfilled so far. It means that the currencies of the transitional economies had to be overvalued and that because of it the great part of their business enterprises, especially in manufacturing, were wiped out.

⁹ It is usually said that Japan has no problems although its public debt is more than 200 percent of its GDP because its debt is in the hands of domestic investors. But it is wrong. Japan has no problems because it has been running current account surplus or at least it has not been running current account deficit.

8. Conclusions

It is not so important for transitional economies how the financial sector would be reformed for their kind of capitalism, for instance, to become more humane. In the first place, the financial and economic crisis made it clear that their problems are in the real sectors of the economy. They are consequences of the chosen method of the abolishment of the social ownership of business enterprises. It has been the case of more or less all countries, and of inappropriate monetary policy and exchange rate regime, for instance in Croatia, and Monte Negro. These problems can be overcome only in the long run once consensus is reached on necessary and painful reforms. It is different in developed countries. Financial reforms may lead to changes in capitalism, although not according to some blueprint, and not so thoroughly and quickly as one can find in some writings but by small changes and by “trial and error”.

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Kapitalizam, razvijeni i tranzicijski, kakav se razotkrio tijekom financijske krize

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Sažetak

Tijekom krize, postalo je očigledno da je vrsta kapitalizma kojeg neki zovu financijski kapitalizam, a koji je postao dominantan u razvijenom svijetu tijekom posljednjih dvadeset ili trideset godina, prouzročio je tu krizu, odnosno ne može je u potpunosti prevladati ili, u najboljem slučaju, ne može je se u potpunosti osloboditi. Rast dugova, kredita, financiranja općenito, mijenjanje ponašanja financijskih institucija i bankara, trgovaca, financijera, njihovog vrlo kratkoročno usmjerenog horizonta, sa svojim ogromnim bonusima, velikom dobiti banaka, za kapitalizam neprihvaćeni moral su samo neke od stvari, koje izlaze na površinu. Kako je financijska kriza započela i proširila se na cijeli svijet; kako je to utjecalo na tranzicijska gospodarstva bivše Jugoslavije, što je teorijski ili ideološki temelj kapitalizma koji smo imali, što je moralnost kapitalizma ili tržišne ekonomije – pitanja su koja su dotaknuta u prvom dijelu ovoga rada. Na kraju, kao i u zaključku rada, tu su misli i / ili ideje o promjenama u kapitalizmu koje se mogu očekivati. Financijske reforme su ključne za razvijeni svijet i one mogu pokrenuti dublje promjene. Međutim, takve financijske reforme tranzicijskim gospodarstvima nisu ni bitne ni dovoljne, jer je upravo financijskom krizom dodatno istaknuta ozbiljnost problema s kojima su suočeni i poteškoćama u njihovu prevladavanju, daleko većim i ozbiljnijim od onoga što se prethodno mislilo. Njihovi problemi su uglavnom problemi realnog sektora njihovih gospodarstava.

Ključne riječi: kapitalizam, financijski kapitalizam, tranzicijska gospodarstva, financijska kriza

JEL klasifikacija: G01, G20, P10, P30

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