ROUTLEDGE CRITICAL STUDIES IN FINANCE AND STABILITY

Financial Development, Economic Crises and Emerging Market Economies

Edited by
Faruk Ülgen

ROUTLEDGE

Financial Development, Economic Crises and Emerging Market Economies

Recurrent crisis in emerging markets and advanced economies in the last few decades has cast doubt on the ability of financial liberalization to meet the aims of sustainable economic growth and development. The increasing importance of financial markets and financial efficiency principles over economic decisions and policies since the 1980s laid down the conditions of the development process of emerging market economies.

Drawing heavily on the tumultuous crises of the 1990s and 2000s, *Financial Development, Economic Crises and Emerging Market Economies* argues that those experiences can shed light on such a crucial issue and lead economic theory and policy to overcome the blindness of efficient free market doctrine to economic catastrophes. This book focuses on the weaknesses and irrelevance of financialized economic structures and discusses the implications of the ongoing global crisis with regard to the financial prerequisites of a sustainable growth and global stability.

Different critical perspectives and case studies presented in this book develop arguments against financialization and market fundamentalism, which are regarded as the main pitfalls in the process of growth and development. Chapters give sound support for alternative economic and financial policies that would be able to lead banking and financial systems to accompany collectively manageable economic development. This book will be of great interest to those who study political economy, development economics and monetary economics.

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Routledge Critical Studies in Finance and Stability
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The 2007–2008 Banking Crash has induced a major and wide-ranging discussion on the subject of financial (in)stability and a need to re-evaluate theory and policy. The response of policy-makers to the crisis has been to refocus fiscal and monetary policy on financial stabilization and reconstruction. However, this has been done with only vague ideas of bank recapitalization and 'Keynesian' reflation aroused by the exigencies of the crisis, rather than the application of any systematic theory or theories of financial instability.

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Foreword

James K. Galbraith

What has been the role of the financial sector in the recent debacle of the world economy? Is it the fundamental driving force behind the collapse and the ensuing stagnation? Or is it merely a reflection of deeper realities, a window into the world of technological change, globalization, resource shortages, climate change and conflict? This type of question cannot be answered definitively by scientific method; it has some of the metaphysical characteristics of the mind–body problem or the question of the existence of God.

Finance is of course intertwined with and affected by deeper realities. Yet financial institutions are also themselves institutions. They have specific interactions with law and contract. They create and direct economic and political activity for good or ill. They absorb resources and they dominate the upper reaches of the personal income distribution. For all of these reasons, finance is worth far more attention from students of economic systems than typically it gets from the economics profession.

Indeed, a noted feature of the so-called mainstream approach to economic modelling is that banks play no role at all. In these models the entire economic system is represented as the interaction between producers and consumers, as well as between savers and investors. The institutions that clear the transactions and make the loans are depicted as passive artefacts rather than active players in this scheme of things. No doubt the "Masters of the Universe" would be surprised by this characterization, however convenient they might find it when the Senate Permanent Subcommittee on Investigations comes round.

The chapters that make up this book address themselves to the economics of financialization on its own terms. They provide a wide-ranging review of previous work by economists in the Minsky tradition, and a survey of views from around the world. A fascinating chapter details the experience of a part of sixteenth-century Holland, Friesland, where banks did not exist. Useful chapters on Turkey, Brazil, Russia and China round out the volume.

I recommend this work to those who believe – as I do – that the power of finance is excessive and dangerous.

James K. Galbraith
Austin, Texas
26 March 2016

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Introduction

Financial development

The sword of Damocles hanging over the process of economic development

Faruk Ülgen

After several painful crises in emerging market economies (EMEs) and in some smaller advanced economies in the 1990s, it took a systemic crisis in the heart of global capitalism, the United States economy, for economists finally to recognize (although timidly) the need for questioning their belief in the spontaneous efficient working of free markets and then to ask, "What's going to save financialized market economies and put capitalist finance on a right path?" Old and forgotten critics came back, through Minsky-like analyses and renewed words, like institutional consistency and macro-prudential regulation, gave old debates new clothes. Indeed, 30 years after the publication of Carlos Diaz-Alejandro's article – "Goodbye financial repression, hello financial crash" – the balance sheet of financial reforms seems rather negative. Recurrent crises in major EMEs but also in most advanced economies in the last decades and the persistence of poverty all around the world cast doubt on the aptness of a financially liberalized environment to give economies relevant and consistent means and ways with regard to the prerequisites of sustainable economic growth and development.

The United Nations (UN) (2009) puts the emphasis on this fact in its *Rethinking Poverty. Report on the World Social Situation 2010* and states that trade liberalization, financial liberalization and privatization did not result in the expected positive outcomes in developing and emerging market economies. It is also noted that excessive reliance on markets and on the private sector carries high risks, especially with regard to the poverty reduction objective. The UN then argues, ten years after its 2000 Millennium Summit held in New York, that there is an "urgent need for a strategic shift away from the market fundamentalist thinking, policies and practices of recent decades towards more sustainable development and equity-oriented policies appropriate to national conditions and circumstances" (UN 2009: iv). Analyses offered in this UN report point out several critical insights on the assumed positive relationship between liberalization, openness, privatization and growth/development/welfare. Some of those pitfalls might be summarized as follows:

- Capital account liberalization does not result in any significant decline in the cost of finance. Instead, the cost of finance may behave perversely, rising sharply during economic downturns (forcing real interest rates to rise) and falling during booms (yielding low real interest rates) (UN 2009: 106).

- Financial deregulation undermines important social functions of finance and makes it less inclusive (UN 2009: 107).
- Financial deregulation destroys an important industrial policy instrument such that:

> Most late industrializing countries, at least since the twentieth century, have created well-regulated financial markets and often State controlled financial institutions designed to mobilize savings to support priority investments. They used directed credit policies and differential interest rates to support nascent industries with the potential to expand into export markets. They also created development banks with the mandate to provide long-term credit on attractive terms. These financial sector policies contributed significantly to rapid economic transformation and poverty declines in those countries.
>
> (UN 2009: 107)

- In the process of development, there is a crucial space for public economic policies, guided by strategies aiming at the collective good, especially in the financial area:

> Developing countries should therefore consider, selectively, the formulation of trade and industry policies to augment the development of new potentially viable production capacities and capabilities. Not only should financial policy in developing countries be concerned with ensuring financial stability, but it must also be counter-cyclical, developmental and inclusive. In many developing countries, this will require explicitly addressing the needs of food agriculture through rural banking and other inclusive finance initiatives. Governments should consider reintroducing specialized development banks, especially to promote employment-intensive small and medium-sized enterprises and agriculture. This may involve directed and subsidized credit as well as other proactive financial policy initiatives.
>
> (UN 2009: 111)

- Privatization is not the panacea for better and durable employment:

> Employment in State-owned enterprises may represent a better way of providing social security than social security payments themselves from the point of view of self-esteem, learning by doing and reciprocal obligations. Privatization must not ignore employment conditions and likely job losses, as they affect poverty, especially of the working poor. There should be adequate protection of employment conditions as well as active labour-market programmes in place. Similarly, provision of utilities must remain inclusive regardless of ownership. Public utilities,

> if privatized, must stipulate mandatory adequate service provisions to disadvantaged groups and areas.
>
> (UN 2009: 113)

The World Bank (2005: 163) also accepts that deregulation and privatization might have been pushed too far in some countries and some sectors.

- Economic and financial liberalization may result, even in the long term, in poverty and worsening of the conditions of life of populations (UN 2009: 102). On this last point, the World Bank notes that:

> The distributive effects of trade liberalization are diverse, and not always pro-poor. Trade reforms were expected to increase the incomes of the unskilled in countries with a comparative advantage in producing unskilled-intensive goods. Yet evidence from the 1990s suggests that even in instances where trade policy has reduced poverty, there are still distributive issues. One important policy lesson is that countries need to help workers affected move out of contracting (import-competing) sectors into expanding (exporting) sectors. This is an issue relevant to both developing and industrialized countries. . . . Global markets are the most hostile to the products produced by the world's poor – such as agricultural products and textiles and apparel. The problems of escalating tariffs, tariff peaks, and quota arrangements systematically deny the poor market access and skew the incentives against adding value in poor countries.
>
> (World Bank 2005: 132)

Indeed, there is a two-facet relationship between instabilities and wellbeing/welfare; the coin has two (interdependent) sides. Although instabilities due to financialized capitalism have aggravated poverty and inequalities, in a recent book, James Galbraith (2012) argues that inequality also triggers instability.

In a very comprehensive study on capital flows, financial development and economic welfare, a 2009 report of the Bank for International Settlements (BIS) concludes in a very precautionary way that:

> Overall, it is a combination of sound macroeconomic policies, prudent debt management, exchange rate flexibility, the effective management of the capital account, the accumulation of appropriate levels of reserves as self-insurance and the development of resilient domestic financial markets that provides the optimal response to the large and volatile capital flows to the EMEs. How these elements are best combined will depend on the country and on the period: there is no "one size fits all".
>
> (BIS 2009: 134)

Therefore, the United Nations (2009: 106) advocates: "In light of the disappointing experience, authorities should institute mechanisms to restrict large and sudden flows of short-term capital or 'hot money'". Moreover, Rodrik and Subramanian

(2008), among others, remark that the assertion of the positive effect of financial globalization and liberalization rests on the assumption that the growth and development process in developing/emerging economies is constrained by lack of savings that could be eased thanks to more foreign capital that would flow in after the liberal reforms. The authors maintain that this is a false problem since these countries are much more likely to suffer from low levels of investment that is due to low expectations of profitability and returns. From this perspective, increasing access to international capital markets and financial opening up would not have a significant positive effect on growth and development financing.

Obviously, the organization of financial systems – according to the assumption of free market efficiency held from the early 1980s in most advanced and emerging market economies – led to loosely regulated financial markets and allowed short-sighted speculative financial operations to gain ground and dominate over private economic decisions, development strategies and public policies. Numerous crises thereafter experienced in emerging and emerged economies gave rise to flourishing work on the links between financialization, growth and economic development. Several decades of observations and lessons can now be integrated into economic models to give more sophisticated and multivariable approaches to financial development with respect to growth and development issues. From three decades of recurrent crises all around the world, one could draw at least two conditions for a successful growth-enhancing financial evolution in a market-based and private-enterprise-dominated world economy: macroeconomic stability and consistent supervision. However, even after the 2007–2008 global crisis, economists do not agree on the meaning of those conditions.

On the one side, for liberal and equilibrium economists, good finance and supervision do mean market-friendly structures. For instance, the World Economic Forum (WEF) (2012: xiii) defines financial development "as the factors, policies, and institutions that lead to effective financial intermediation and markets, as well as deep and broad access to capital and financial services". In accordance with this definition, measures of financial development are captured across the seven pillars of the WEF *Financial Development Index*. The first pillar is "institutional environment" which encompasses financial sector liberalization, corporate governance, legal and regulatory issues and contract enforcement; the second is "business environment" which considers human capital, taxes, infrastructure and the costs of doing business; and the third is "financial stability" related to the risk of currency crises, systemic banking crises and sovereign debt crises.

On the other side, for institutionalists, post-Keynesian and Marxist economists, good finance and supervision must lie in collectively designed and managed public structures.

Drawing heavily on the tumultuous crises of the 1990s and 2000s, this book argues that those experiences can shed light on such a crucial issue and allow economic theory and policy to overcome the blindness of the efficient free market doctrine to economic catastrophes. It also points to new challenges to global stability in the wake of the reconfiguration of the international financial arena under the weight of major EMEs.

This book, then, maintains that the means (finance) became the aim (financial liberalization) and pushed economic development and citizens' wellbeing into the background. Such an evolution perverted economic systems and reduced the capacity of market economic decisions to bring sustainable and durable welfare to society. Furthermore, after several decades of worldwide financial liberalization, the relatively high resilience of rather interventionist and less financialized EMEs to the 2007–2008 crisis – compared with more financialized but recessionist advanced economies in the last decades – could allow us to draw some relevant implications about the required conditions and environment for a sustainable growth and development process in the world. The book then focuses on strong objective implications of the ongoing global crisis with regard to the financial prerequisites of a sustainable growth and with respect to global financial stability. The analysis of financial markets' development suggested in this book is a critical one. The standard assertion is that financial development rests on open and liberalized structures and can be defined in relation to the length, depth and liquidity of financial markets. Through an opposed stance, this book points to the weaknesses and irrelevance of such a theoretical and policy viewpoint by putting together theoretical analysis (from different critical perspectives) and case studies on different economies. Most chapters rely on approaches that develop arguments against financialization and market fundamentalism as representing the main pitfalls in the process of growth and development – especially in EMEs. Analytical developments presented, then, can be expected to give sound support for alternative economic and financial policies that would be able to lead banking and financial systems to accompany collectively manageable economic development.

The book gets started with a focus on core issues common to all economies in their respective development adventure, with regard to the relationship between financial liberalization, growth, crises and then development – lost in transition. In this vein, the first six chapters take a general conceptual stance in order to deal with the concerns related to the evolution of financial structures in market-based (advanced as well as emerging) economies regarding economic growth, systemic instability and development issues. Those chapters mainly elaborate the meaning of financial development, global financialization of economies, links between financial development and economic growth, and between financialization and instability, and offer some reform proposals. The following chapters (7–13) deal with some specific issues in different economies from a historical and theoretical perspective. These studies also examine the evolution of banking and financial systems and the rise of systemic instabilities.

With this aim, Philip Arestis, in Chapter 1, discusses the origins of the "great recession" with a specific emphasis on the distributional effects and financialization through a distinction between main factors and contributory factors. The main factors are distributional effects, financial liberalization and financial innovation. The contributory factors are international imbalances, monetary policy and the role of credit rating agencies. In discussing the origins of the current crisis, this chapter is very much aware of the limitations of current macroeconomics. Adopting a Minskian viewpoint, the chapter maintains that the "great recession" was caused by US financial liberalization attempts and the financial innovations that followed them. That was greatly helped by significant income redistribution effects from wages to profits of the financial sector. An interesting statistic on this score is also the pronounced above-average rise in the salaries of those employed in finance. Such an evolution is related to the process of deregulation that also led to further financial innovation. The analysis of the financial liberalization aspect of crises results in some economic policy implications, emphasizing recent experience with the great recession in order to point to alternative development policies.

In Chapter 2, Joaquín Arriola supplies an in-depth analysis of the origins of the new global financial and monetary configuration and identifies the main structural elements of a phase that is still not a coherent system associated with a new global productive dynamic. The emergence of a double financial and monetary circuit is analysed. On one side, there is the traditional system of international payments and credits, linked to the balance of payments flows (trade, investment, income). The hierarchy of this system is called into question by the financial and monetary initiatives of the BRICS (Brazil, Russia, India, China, South Africa). On the other side, there is a system of global financial euro-markets associated with the attempt by major financial players to break free from state regulations. The euro-markets have expanded without external control or regulation, and are the main source of financial innovation and at the same time of global economic instability. The analytical characterization of the liquidity generated by these euro-markets and their connection with the international and national economies is still incomplete, but the traits of a mutation in the nature of financial capitalism are clearly perceptible. This chapter delineates those traits and shows how emerging economies – more delinked from these global markets – perform in the medium term better than advanced economies.

Chapter 3, written by Faruk Ülgen, seeks to assess the relevance and the consistency of a liberal regulatory and institutional environment with the financial stability of market economies. Through a brief synthesis of the theoretical foundations of liberalization reforms, it studies the links between the process of financial development and the crises in emerging market economies with respect to the main lessons which could be drawn from the 2007–2008 crisis of global financialized capitalism. This ongoing crisis reveals that monetary and financial problems do not lie only in the economic fragilities that would be due to underdevelopment, but rather are due to the way in which liberalized economies work. From this perspective, this chapter maintains that financial instabilities are more the result of endogenous problems of financialized economic systems than the natural outcome of the difficulties of transition towards an efficient market economy of some emerging and developing economies.

In her analysis of financial markets' underdevelopment in some emerging market economies, Shazia Ghani seeks, in Chapter 4, to assess the underlying challenges as well as the suggested policy responses in the face of financial and economic development – long-lasting – issues. Although several EMEs remained resilient to the onslaught of the 2007 crisis, yet the state of underdeveloped financial markets and related infrastructures in majority of developing economies/EMEs poses a serious challenge to the policy-makers. These challenges become manifold when unconventional policies pursued by the advanced economies in the post-2007 crisis are expected to be reversed in the near future. Several EMEs are already showing signs of instability and vulnerability in the form of interest rate and currency fluctuations, costs of borrowing and alarming debt levels (Turkey, South Africa, Chile, India, Indonesia, Argentina, Russia and Brazil – the fragile eight), accentuated by slower global growth, falling commodity prices and current account weaknesses. It is, therefore, judicious to analytically assess the connections between the policy choices of advanced economies and their spill-over impacts on EMEs, with a special focus on the unconventional policies in the post-crisis period that leave a narrow policy space for EMEs, while domestic financial infrastructure's development, an essential prerequisite of the development process, is not yet achieved. The focus is then put on the peculiar necessary conditions and required institutional and regulatory/supervisory frameworks to achieve stable, liquid and deeper financial markets in the EMEs.

Dealing with the same crucial issue in the evolution of capitalist economies, Malcolm Sawyer offers, in Chapter 5, a review of the recent literature on financial development and economic growth, and on financial liberalization and financial crisis which indicates that the positive link between financial development and economic growth has been much reduced and perhaps broken. This then leads into a consideration of the growth of and structural changes in the financial system (which are included within the term financialization) over the past three decades and their impact on economic development (broadly conceived to go beyond economic growth). Therefore, Sawyer discusses alternative financial institutions and their role in the promotion of high-quality employment. In a number of respects, the promotion of alternative financial institutions alongside policies to constrain the operations of financial markets would amount to de-financialization.

The analytical developments above point to some proposals for radical systemic reform. From this perspective, Chapter 6 by Sergio Rossi states that the origin of the 2007–2008 financial crisis can be found in the structure of domestic payment systems, which are also used for international settlements, despite the purely accounting nature of bank money. This chapter deals with the essential principles of the necessary reform of the current international payment system and shows that only a supranational currency would guarantee national and international financial stability. Arguing first that the nature of bank money is purely scriptural, the analysis shows how the architecture of the payments system should be structurally reformed at the international level, to avoid problems that were the origin of the systemic financial crisis that burst out in 2007–2008 at a global level. In this regard, the emerging market economies may decide, individually or as a group, to shield themselves from the present non-system for international payments, setting up an international clearing institution in charge of issuing a supranational means of payment finality for their foreign trade. Such a system will contribute to financial stability, thereby supporting economic development in a sustainable way, and those benefits will increase employment levels across the world.

In order to give those analyses an empirical support in light of a specific past experience in terms of the monetary and financial evolution of a now-advanced economy, the Netherlands, Merijn Knibbe and Paul Borghaerts ask, in Chapter 7, a crucial question: why do banks exist? The authors show that even if the "textbook economics" states that the mission of banks is to match the supply of funds with the demand for funds, it seems that Frisians in the sixteenth to eighteenth centuries, a fully commercialized society, did not need this service. Therefore a new question arises: why not? In the entire province of Friesland, there were hardly three people calling themselves "banker", while the function of "pawn shop" was a privilege of the local orphanage of Leeuwarden. Financial functions like lending and saving were clearly part of the household economy and not of specialized institutions, as is also clear from the Frisian *"hypotheekboeken"* (mortgage books), a (voluntary) register of larger loans between households. This does change the question posed above. Banks do not exist because of intermediation required between borrowers and lenders – but because of another reason. With this aim, the *hypotheekboeken* are used, together with data from the occupational census and probate inventories, to investigate the nature of financial transactions in the Netherlands in the sixteenth to eighteenth centuries, and to ponder why this society – though very market-oriented but still a small-scale economy – did not see the need to use the services of banks. In the end, it is discussed what changed and why banks took over in order to understand the role of banks and the related financial system in economic development.

In the Chapter 8, Aboubakar Sidiki Cisse reminds us that financial development is defined as the accumulation and diversification of financial assets and institutions, improving efficiency and competition in the financial sector and increasing the access of the population to financial services. It is in this spirit that since the 1970s, financial liberalization as a means of achieving financial development has been advocated by the international financial institutions (the International Monetary Fund [IMF], the World Bank, etc.). However, the recurrence of financial instability in EMEs questions this dominant position on the relationship between financial liberalization, financial development and economic growth. The chapter then shows that if financial development has a positive impact on economic growth, the instability that may result reduces its impact on the real economy. Thus, there is a broader issue of macroeconomic stability in developing countries in general, and in the African countries of the franc zone in particular. This chapter then insists on a gradual and controlled financial liberalization in the countries of the franc zone. This is crucial to preventing the recurrent instability observed in those economies and to solving the problem of sustainable development over time.

Chapter 9 by Ozan Bakis, Fatih Karanfil and Sezgin Polat examines a specific case – the banking system behaviour in the Turkish economy – through a time-series analysis with respect to credit supply, employing both banking data and other financial variables over the period from 1990 to 2009. The chapter provides a vector error-correction (VEC) model to test for multivariate cointegration and Granger causality. More specifically, the chapter seeks to fill the gap on how the bank behaviour interacts with the financial structure given the conditions of macroeconomic policy. The results point to the existence of Granger causality between the credit–deposit ratio and maturity of time deposits which implies that depositor decisions on maturity change the composition of the balance sheet of banks leading to low credit creation. This implies that macroeconomic uncertainty and instability lead to a kind of credit contraction with the decrease of deposit maturity. The results also reveal that economic cycles are credit-driven in Turkey. The chapter then maintains that free bank/financial markets' decisions do not ensure sustained financing of the economy, and calls for specific monetary and financial policies to support economic growth and development.

In a similar critical vein, Eugenia Correa and Alicia Girón draw, in Chapter 10, on Minskian financial instability analysis to study the major characteristics of the credit expansion and its main consequences for Latin American countries. The banking sector in Latin America has operated in countries with weak economic and financial structures, especially in industrial and external sectors, prior to opening-up policies. Since the 1970s, local banks have confronted the competition of foreign financial flows and the growing demand for foreign currency. Dollarization has been the answer not only as an exchange rate policy, but also as a credit policy supported by government indebtedness and macroeconomic deflation. Other routes to local financial development were deployed when securitization and global finance arrived in Latin American countries, increasing the participation in local credit by the large foreign banks since the 1990s. In recent years, financial development has been closely linked with the main trends in global financial markets. The analysis of this chapter supports Minsky's proposal that securitization is the main force behind the transformation of global financial markets, resulting in financial crises and economic turmoil.

Chapter 11 by Pierre Salama takes the case of another large emerging market economy, Brazil, and studies the links between financialization and the labour market in Brazil, aiming to assess the real effects of financialization on economic growth and employment. In a world where financial development comes along with an increasing disparity of income, a greater casualization of jobs, an important social disaffiliation, and a tendency towards the stagnation of real wages, Brazil gets loose by its peculiarity. As in advanced economies, the share of dividends considerably increases in Brazil in the 2000s, but poverty falls, the disparities of income slightly decrease, wages increase, the ratio between formal employment and informal employment improves, unemployment decreases and deindustrialization becomes more marked. Such a situation is surprising, raising two questions: would there be a happy financialization in Brazil? And is there a relation between the financialization and the deindustrialization? The chapter shows, however, that the miracle of financialization is, most of the time, a mirage. From 2011, growth slows down strongly and the increase of real wages becomes more modest, leading to expectations of reversals to the detriment of workers. The apparently "happy" financialization (absence of negative effects on employment and wages) tends to mutate into a "dangerous" financialization similar to that in the advanced countries.

Nadezhda N. Pokrovskaia argues in Chapter 12 that the discussions on the role and functions of public regulation in the economic system directly or indirectly rest on issues related to the conditions of production of public goods and related external effects. Those issues are usually linked to the political debate on the limits of state intrusion into the natural spontaneous evolution and growth of market economies, assumed to work in an efficient way under perfect free competition and profit-seeking private agents' decisions. The chapter shows that the Russian experience points to some possible financial regulation alternatives during times of crisis. The chapter then analyses the pendulum of regulation preferences of the Russian social and economic model within the historical genesis of transitive chaos from the Soviet command planning towards the naïve liberal ideas. The Russian economy, facing a critical worldwide environment, moves back to sustainable middle-term strategic policy choices aiming at creating investment programmes and plans – even long-term projects and national industrial policies are included in the strategic papers (i.e. the National Energy Strategy) – and structural modernization of the economy (for instance, public financing directed at research and development [R&D] and stimulation of private innovations with a tax incentives policy).

In Chapter 13 (last, but not least), Yan Liang takes a Minskian approach to examine the role of shadow banks in credit expansion and the implications thereof for financial stability. Minsky's incisive analysis of "fringe banks" and an endogenous process of financial fragility is developed to shed light on China's situation. Liang documents how China has undergone two salient developments in its financial landscape since the global financial crisis erupted in 2007. First, there has been a rapid and massive growth of the shadow banking sector which has played an increasingly weighty role in credit creation. And second, debt levels, especially in the corporate sector, have risen significantly to reach an alarming level. Shadow banks have caused elevated financial risks at both the institutional and systemic levels. Liang argues that an imminent financial crisis is unlikely to occur due to the financial prowess of the traditional banks and the central government. However, it is also maintained that shadow lending and debt build-up are not inconsequential. The debt burden may push private enterprises to hold back investment and production, further slowing down the economy and, in turn, exacerbating the debt burden. Therefore, policy-makers must take shrewd and measured steps to regulate shadow banking, to carefully deleverage, to continue to rebalance the skewed demand structure, and to boost real economic growth.

The common lessons which could be drawn from these analyses might represent a simple but crucial result: the working of market-based capitalist economies does not rest on a socially optimal equilibrium-generating dynamic, but follows a somewhat adventurous and potentially hazardous uncertain evolutionary path. To reduce hazardous effects and augment the potential of success on such a path, even in an economy based on private property and individual interest, markets must be democratically and collectively organized and directed towards socially consistent objectives in order to give societies sustainable and durable development possibilities. The performance of financial systems should therefore be related to their contribution to societal-human development and not rely on short-term "return-on-investment" criteria. Of course, these things are probably easier said than done, but the first step, after several decades of ideological obsession with free market fundamentalism, might consist of taking stock of our mistakes and going ahead via objectively relevant alternatives. Our hope is that the analyses in this book might provide some positive contributions to such a human objective. We, the authors, thank the reader for her/his attention from this perspective.

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