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Zombie capitalism must die!

Cheap money in the hands of speculators causes high economic, social and political costs. It's time for the state to act

Read this article in German.

The Walking Dead, Game of Thrones, Z Nation: pop culture is all but overrun with zombies. The undead offer the perfect metaphor in times of great upheaval. Antonio Gramsci already perceived that 'The old world is dying, and the new world struggles to be born: now is the time of monsters.'

Today we live in fear of the American 'Night King', whose army of the brain-dead threatens to overrun the West, while his British colleague breached the Red Wall.. And we eagerly discuss whether his 'White Walkers' are rather left-behind 'white workers' or privileged, old, white men.

Onscreen it remains unclear as to what actually keeps the undead going. A virus? A spell? In real life however, the answer is simple: cheap money. In the 2008 financial crisis, when global capitalism almost had a heart attack, the banks began to print more money. What was originally intended as a short-term rescue operation still continues to this day. Because the real economy is not growing on its own, we are living in an interest-free world.

This cheap money keeps zombie banks, zombie companies and entire zombie economies artificially afloat. Over one-third of companies no longer generate sufficient returns to cover their borrowing costs. German banks, Chinese state-owned companies, Italian airlines and bankrupt Euro countries are all, over and over again, 'saved' by financial injections. Unable to free themselves from the morass of their debts, these undead don't create anything new. However, these zombies can also not be allowed to die.

They have to drag themselves along to buy enough time for the viable

part of the economy to enter a new growth cycle. However, we have been waiting for this new growth for decades already. Japan has been dealing with zero interest rates for almost thirty years. According to sociologist Wolfgang Streeck, the strategy of buying time with artificial demand even dates back to the beginning of the 1970s.

Escalating power asymmetries

The lack of hardly any productivity-driven growth gives pension funds, small investors, and investment funds little choice but to invest in assets such as real estate, stocks, art and gold. Hamburg-based economic sociologist Aaron Sahr sees this asset price inflation as the real cause of rapidly growing social inequality. If assets increase, only the very few who own the stuff will benefit, while the vast majority will be squeezed out by rising rents and property prices. The rich get richer and the poor get poorer.

In a political economy in which eight billionaires own more assets than half of humanity, there can be no fair competition. When the incomes of multinational corporations are greater than the GDP of 85 per cent of the nations on the planet, regulation becomes an illusion. The concentration of wealth at the top of the pyramid also concentrates political power in the hands of those who own.

Cheap money contributes to these power asymmetries. Without attractive investment opportunities in the real economy, trillions of dollars are on a frantic, worldwide hunt for returns. This speculative capital has a particularly harmful effect on the real estate markets. Astronomically rising rents in combination with stagnating wages, drain the pockets of consumers.

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Weak demand in Western markets is one of the reasons why the Chinese export machine stutters. If Chinese demand for raw materials slows down, revenues in many emerging countries will collapse. After a short breather in the commodity boom of the 2000s, many developing and emerging countries are once again dependent on emergency loans. If, under pressure from their creditors, governments cut subsidies for energy, transportation or food, hundreds of thousands will take to the streets. As these demonstrators could be dangerous to the rich and powerful, they are vilified as brainless masses. But such protests show that

zombie capitalism no longer has very much to offer them.

Undead ideas drive this dance of death. As back in the heyday of the Washington Consensus, the IMF forces its debtors to make structural adjustments again. The German government is pushing its indebted neighbours into a financial bloodletting. Neoclassical economists stigmatise every minimum wage and form of social security as growth killers.

A zero interest rate future

Zombie capitalism regularly becomes rattled by financial crises and yet nothing is done to prevent new bubbles from forming. On the contrary, money pumped in at zero cost allows even more uninhibited speculation than before. The wildest parties are thrown in the private equity markets, where venture funds burn billions of cheap money to catapult their digital platforms into profitable quasi-monopoly positions. However, it's increasingly rare for newcomers to achieve what Google, Apple, Facebook and Amazon have pulled off. WeWork's failed IPO could mark the beginning of the end of the pointless hunt for the next unicorn.
When all the billions have vanished, the bottom line is a broken promise. With no more money to be made from the cars, televisions and refrigerators of the last industrial revolution, the digital revolution is now supposed to trigger the next growth cycle. But the hope for a boost in productivity has so far failed to materialise.

In spite of all the savers' protests, the old industrialised countries' anaemic growth needs to be continually boosted with cheap money. Accordingly, the new European Central Bank President Christine Lagarde has renewed her predecessor's zero interest rate policy. The world of the zero-interest rate will determine our reality for the foreseeable future.

But wait – aren't high interest rates the bigger problem? For thousands of years, all of the world's religions have banned usury because they knew about its socially destructive effect. For all his life, John Maynard Keynes fought for low interest rates to avoid crises in the first place. But it's worth taking a closer look.

The banks do not take the cheap money that they co-create with the central banks and pass it onto the real economy. Indebted companies with poor credit ratings do not qualify for loans. And the last financial crisis was a warning not to overdo it with easy consumer credit. So

zombie capitalism combines the worst of both worlds: gamblers fuel social inequality with tons of cheap money, while companies lack the funds to invest and households lack the income to consume. This is precisely why the economy is not recovering despite cheap money — and why Europeans are suffering from high rents and unemployment.

Invest, invest, invest

That's why the UK-based South African economist Ann Pettifor wants to give the democratic control of the financial sector back to the state, so that the newly created money does not end up with the gamblers but gets passed onto the real economy. In view of the current balance of power, this is an ambitious goal. Moreover, in view of the multiple crises that zombie capitalism triggers around the world, it's no longer enough to merely treat the symptoms.

If the new speculative bubbles burst, another financial crisis will loom. However, compared to the last crisis, central banks will have nothing left in their toolbox to save the economy from collapse — because interest rates are already zero. In order to free the economy from the 'black hole' of zero interest rates, the American economist Larry Summers calls for the state to borrow and spend money, whether for social spending or renewing infrastructure. Even the conservative Organisation for Economic Cooperation and Development has been demanding for years that expansionary monetary policy be accompanied by a more expansionary fiscal policy.

Faced with various crises, it's high time to put our economic system on a sound footing. Cheap money in the hands of speculators results in high economic, social and political costs.

This is exactly how we can leave zombie capitalism behind. Cheap money enables investments in the future. Even just the overhaul of infrastructure, which has been decaying for decades, requires an enormous financial effort. In Germany, for instance, in a rare moment of agreement, the trade union-affiliated Macroeconomic Policy Institute (IMK) and the employer-affiliated German Economic Institute (IW) are calling for public investment of €457bn for the coming decade.

The climate-neutral restructuring of the production, transportation, energy, and housing sectors requires investments in the trillions. To design the digital revolution in a more human-oriented way, we need the greatest investments in mind power since the Enlightenment. Furthermore, to counter the feeling of people in the rust belts — that of being abandoned by the state — good public services must be provided.

A new economic consensus emerges

The good news is that these investments have never been cheaper than right now. The German state can currently borrow from the financial markets at no cost. On the contrary, investors even pay the German treasury to borrow. Investments in the future will not only pay off in the long term. In the short term, the state signals its confidence in economic development, which in turn will result in additional private investment. If the state takes advantage of this timely opportunity, a positive demand cycle could be initiated.
For the new money not to stay put, structures that were destroyed under the austerity dictates of recent decades must first be repaired. Apart from allowing municipal administrations to be effective, this also means reinvigorating the construction industries and skilled crafts and trades, along with universities and research institutions.

Therefore, the Italian-American economist Marianna Mazzucato does not simply want to channel the new money into consumption, but rather use it to shape the future. Starting in 2020, the EU's €100bn Horizon Europe innovation program — which Mazzucato helped design — will fund five missions: adaptation to climate change, the fight against cancer, healthy oceans, climate-neutral cities and healthy soils and food. The goal is to use the cheap money to create new markets that will serve the common good. However, the missions' real message lies between the lines: the state, which for decades has been notorious for putting the brakes on development, resumes its traditional role as a pathfinder, signalling to citizens and companies that they can trust the future.

So, something is moving forward. But where are the cracks in economic orthodoxy suddenly coming from? Paradigm shifts don't occur in a vacuum. In fact, China's state capitalism has created a rival system equipped with unlimited funding. Meanwhile, old certainties are also being challenged in the West. The American, European and Japanese central banks alone have created more than €20 trillion out of nowhere to combat the crisis. The taboo of using the banknote printing press for tasks other than price stability has therefore vanished. The European Central Bank now even wants to tackle climate change. The looming recession, the political earthquakes and the digital revolution will further broaden economic thinking.

Faced with various crises, it's high time to put our economic system on a sound footing. Cheap money in the hands of speculators results in high economic, social and political costs. Progressive politics must therefore fight to regain democratic control over the money-creating financial sector. If the heart of financial capitalism fails to provide the real

economy with capital, the state must create a bypass. If the state uses the cheap money to invest in the future, there will be a virtue made out of necessity, since cheap money constitutes a genuine windfall for financing urgent tasks of modernisation. A state capable of action that democratically oversees the financial markets and wisely invests in the future is the best way to get out of zombie capitalism.



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