The current issue and full text archive of this journal is available on Emerald Insight at:
www.emeraldinsight.com/0368-492X.htm

The unintended emergence of a greed-led economic system

Wladimir Andreff
Department of Economic Science, University of Paris, Paris Cedex, France

Abstract

Purpose – This paper aims to propose a new model of economic behaviour in which activities are led by greed rather than by the traditional formal rules of capitalism.

Design/methodology/approach – This paper relies on the empirical observation of bad practices that developed in synchrony during the collapse of the former communist economic system and the rise of global financial capitalism. Both were fuelled by greedy behaviour of asset grabbing, and paved the way to an emerging greed-led economic system.

Findings – First, microeconomic individual greedy behaviours that drive asset grabbing are identified, such as rigged or corrupt privatisation drives, subprime mortgage loans, Ponzi schemes, lending to insolvent clients, bad loan securitisation, stock options, fraudulent accounting and online betting on fixed matches. Then systematic changes in the traditional formal rules of capitalism that favour those having adopted a greedy strategy are pointed at; greedy behaviour is institutionalised when these capture the state and successfully lobby for rules change. Contrary to capitalism, systemic greed uses asset grabbing, instead of capital accumulation, as its major means for wealth maximisation without constraint, in a winner-take-all economy beneficial to oligarchs.

Research limitations/implications – The implications of this new systemic behaviour have implications for further economic modelling.

Practical implications – The emergence of systemic greed will have implications for the design of regulatory systems.

Originality/value – This paper proposes that a greed-controlled economy is replacing the traditional capitalist economy.

Keywords Privatisation, Financial markets, Asset grabbing, Economic systems, Greed, Rule changes

Paper type Research paper

1. Introduction

The emergence of centrally planned economies run by communist regimes in the Soviet Union, Eastern Europe and China gave rise to a new discipline in economics: comparative economic systems. Starting with Tinbergen (1961), the hypothesis of a convergence between two systems, capitalism and so-called socialism, triggered a rather optimistic view: in a dynamic process, each system will "borrow" the positive elements of the other one and the hybrid will be upgraded.

Such optimism vanished with the collapse of communist economies in 1990, while Francis Fukuyama was claiming the end of history with an ultimate "victory" of capitalism all over the world. Nearly at the same time emerged a less optimistic view contending that a kind of negative convergence – coined congruence (Andreff, 1992a) – may also result from a combination of good economic processes giving bad results with bad processes usually yielding bad outcomes; the early years of the post-communist transition in the 1990s provided empirical evidence giving solid grounds to such an alternative hypothesis.

Kybernetes
Vol. 48 No. 2, 2019
pp. 238-252
© Emerald Publishing Limited
0368-492X
DOI 10.1108/K-01-2018-0018

للاستشارات المنارة
www.

The collapse of centrally planned economies and their post-communist transition reopened a debate in Marxist theory about the sequence of modes of production as well as controversies in comparative economics about sequencing the market economy, a central planning system and possibly their convergence into a mixed economy. In this transition debate, one major factor remained unheeded: the widespread development of greed on both sides of post-communist transition economies (PTEs) and global financial capitalism.

Twenty-five years later, has the intended well-functioning fully-fledged market economy spread all over the world? This paper contends that this expected evolution of capitalism, supported by the IMF and World Bank Washington consensus, did not really happen due to unexpected and unintended consequences of both post-communist transition and global financial markets that propagate greedy behaviours.

Basically, greed is a human psychological attitude. However, it may be fuelled or even exhilarated by some economic circumstances or situations where a number of unethical individuals take the opportunity of making money just to be greedy. Three major behaviours lay the ground for a new greed-led economic system in the making: asset grabbing, changing the formal rules and circumventing or perverting current capitalism institutions. When these three greedy behaviours spring up, then aggregate and articulate together, they trigger an unintended systemic consequence, i.e. the emergence of a new unwanted economic system; greed tends to become a systemic behaviour. In the past three decades or so, two major series of occurrences have pushed greedy behaviour up to being systemic: rigged privatisation drives – primarily but not only in PTEs – and the development of new financial products and practices.

This paper first identifies microeconomic individual greedy behaviours that drive asset grabbing. Then it points at systematic change in the traditional formal rules of capitalism for those having adopted a greedy strategy of asset grabbing. At the end of the day, the latter attempt to institutionalise their greedy behaviour in capturing the state and lobbying for rules change. Aggregating the outcome of all asset-grabbing behaviours provides a quantitative assessment of the size of the greed-led sector in global economy, which exhibits its systemic magnitude. Contrary to capitalism, systemic greed uses asset grabbing, instead of capital accumulation, as its major means for wealth and enrichment maximisation without constraint, in a winner-take-all economy beneficial to oligarchs.

This paper is centrally an economic analysis of economic behaviour and strategies deeply rooted in classical economics and political economy. Among the alternative approaches of current capitalism, one could have adopted the standpoint of criticising authoritarian neoliberalism or ordo-liberalism (for instance Jessop, 2002; Young, 2014) as the ideology that relates current capitalism with the decline of liberal democracy. However, such an approach geared towards aspects of politics and society is beyond the scope of this paper. Furthermore, scholars representing this train of thought have not published even a word on the idea of a specifically greed-led economic system. At the present stage of elaboration on the concept of a greed-led economy, the suggestion that there might be some clear relationship between it and authoritarian neoliberalism is uncertain and not demonstrated yet. As this is a serious issue that goes far beyond the economic scope of this paper, it cannot be dealt with here.

2. Basic greedy microeconomic behaviour: asset grabbing

Greedy behaviour often materialises in asset grabbing. Current examples of asset grabbing are many[1]. What is meant by asset grabbing is a situation where either assets previously accumulated in the public sector are grabbed through privatisation or indirect financial assets are grabbed, which results from successful betting in financial markets.

المنارة للاستشارات

www.

Privatisation has paradoxically triggered off the unintended consequence of a process of wealth acquisition that differs from capital accumulation, and even hinders it as soon as privatisation is achieved by means of asset transfers. The latter translate into grabbing previously accumulated capital in the public sector when a buyer does not pay the full price for assets coming into his/her possession. Privatisation is a unique window of opportunity that will never come back again to grab or strip an enterprise's assets at cut-price. Someone who has easily grabbed assets often stakes them, partly or entirely, on lucrative non-productive activities, for example in financial markets that is, he/she rarely uses all his/her cheaply grabbed capital to invest in real production. Thus, asset grabbing erects itself as an obstacle to capital accumulation, and is predatory.

Predation for predation *per se* is not a foundation of capitalism. While it has characterised specific phases of capitalism as a tool for primary accumulation in a Marxian sense, at the dawn of capitalism and in colonisation episodes, both are outdated since the emergence of global capitalism (Andreff, 1976). If, after being grabbed, assets are used otherwise than for capital accumulation in production and trade – for speculation, financial bets, games, squandering, asset flight abroad and laundering misappropriated assets, this is not a founding feature of capitalism. These asset uses point at the basic traits of a wealth acquisition system relying on the redistribution of existing assets instead of the creation of new real economic value.

The privatisation drive launched in "Thatcherite" UK in the early 1980s was soon enshrined into the Washington consensus – i.e. standard neoliberal economic policy. This created a nice opportunity of asset grabbing for those having a strong predisposition for greedy behaviour. Then privatisation programmes were launched in developed and less developed countries (LDCs), and spread further on to 28 PTEs in the 1990s and to China in 1997. Still, asset grabbing through privatisation is not over; for instance, the French Government currently envisages selling shares of state-owned Aéroport de Paris and Française des Jeux (betting company).

The standard privatisation programme recommended by the IMF (Hemming and Mansoor, 1998) suggested dividing the stockholding equity of would-be privatised companies into different "slices" sold at different prices. A percentage of all stocks were to be sold in international stock markets; another percentage of stocks were preserved at a cut discount for the firm's employees; a third share of stockholding equity was to be acquired by a hard core of controlling shareholders; the remaining slice consisted in stocks publicly offered in the domestic stock market to resident population. This recommendation was in tune with the previous 1985-1986 French privatisation, which exhibited unintended consequences. When stock prices fell during the October 1987 crash, small shareholders sold their depreciated stocks in companies. Core shareholders and institutional investors acquired these stocks at a low price in the market. Thus, skimming off depreciated stocks in the market, a small group of core block-holders grabbed assets in leveraging people's savings.

In France and many LDCs, a fixed price IPO technique was adopted. A privatisation commission fixed a minimum stock price, after having audited a public enterprise to be privatised. The minister for privatisation nearly always opted for a price higher than the minimum assessed by the commission, though quite lower than any expected stock market price. Such crystal clear and systematic asset underpricing (Andreff, 1992b) was a precondition for the French privatisation success story, as it triggered off an excess demand for stocks of privatised companies. This made privatisation popular to savers and, by the same token, enriched core shareholders. The latter grabbed assets at a higher initial stock

www.

price offered to them than to regular savers, though still at a discount price, and then bought further stocks at depreciated prices after the 1987 crash.

Discount-price asset grabbing was even more extensive when privatisation proceeded with over-the-counter non-market sales of assets. Then asset pricing resulted from bargaining between the government and private rescuers, and in any case, the outcome was underpricing. International consultants who often advised the rescuers were used to widely propagate the idea that the economic value of firms on the brink of privatisation was nearly zero due to supposedly obsolete physical assets. Arthur Andersen took the opportunity of being involved in PTE privatisation drives, before the Enron scandal, training its staff at downward-biased value auditing in favour of the rescuers and inside dealers (Andreff, 2007).

In various LDCs, asset sales were integrated into debt-equity swaps (Bouin and Michalet, 1991). The rescuers bought in the secondary market, at (at least 50 per cent) discount, debt equities issued in hard currency. Afterwards, these equities were redeemed for stocks of would-be privatised enterprises. The latter were thus acquired at half-price or less. Given the inflationary impact of such swaps and a limited number of potential rescuers in LDCs, the government was used to manage these deals with the least possible transparency.

In PTEs, greedy behaviour in privatisation programmes took the form of asset tunnelling. Spontaneous privatisation in PTEs was a specific grabbing by a manager or a managerial group, who relied on stripping and tunnelling state-owned assets to his/her private satellite company. Extremely low transfer pricing in trading contracts signed between the satellite company and a state-owned enterprise was used on purpose. Thus, managers became stock owners of their company's assets. The distinction between managers and owners vanished, and did not make sense any longer since a group of stockholding managers emerged, coined oligarchs. Spontaneous privatisation was tolerated by governments; though illegal and corrupted, it enabled oligarchs to swiftly grab assets; in the transition context, an ideology supporting the view that assets would only be efficiently managed in private ownership, whoever the owner, was pushed forward. *A priori* unpopular, spontaneous privatisation became definitely hated by the population when oligarchs started transferring grabbed assets to tax havens, buying casinos and soccer teams abroad and were involved into money trafficking. Besides, privatisation was a top-down political and administrative process widely open to collaboration (Blasi *et al.*, 1997) and corruption between the managers of state-owned firms and privatisation local authorities. Inside dealing was more the rule than the exception. When the future identity of asset owners becomes blurred, privatisation generates considerable uncertainty that makes managers eager to loot assets.

In asset acquisition with credit leverage, the so-called leverage buy-out (LBO), managers and employees acquired assets of their own company with cut-price leveraging on bank loans. The discount applied on to already undervalued prices that were beforehand calculated by those managers eager to acquire the company's assets. Adopting LBO privatisation circumvented the opposition of managers and employees to their company's privatisation and enabled managers to grab assets cut-price or for free. After LBO privatisation, managers usually bought their employees' equities at over-the-counter low prices (Frydman and Rapaczynski, 1994). Managers swiftly reached the minimum percentage of shares necessary to hold the decision-making power and stand as core shareholders in privatised companies (Andreff, 1995). They formed a monitoring group of managers/owners or stockholding managers, or insiders/outsiders (Andreff, 2000). Oligarchic managers/owners emerged also in Western capitalisms at nearly the same time with allocating stock options to managers.

المنارة للاستشارات

www.

Mass privatisation proceeded with giving away companies' equities or vouchers redeemable in stocks to all the population at a negligible price. The World Bank promoted mass privatisation as its most favoured method in PTEs and praised it to the skies in the Czech Republic – and for a while in Russia – where it was adopted as the first priority privatisation technique (Boycko *et al.*, 1995). With mass privatisation, asset grabbing was used on a large scale and concentrated assets in the oligarchs' hands. In Russia, a big majority of privatisation voucher holders sold them overnight at discount price to new, rich and forthcoming oligarchs. This did not happen without a series of embezzlement and fraudulent losses of millions of privatisation vouchers (Freeland, 2000). Assets were also grabbed through selling stocks over-the-counter, as a stock exchange still did not exist. This equity trading did escape any regulation, just like any over-the-counter trade in developed capitalisms. In mass privatisation, one can never know who the next owner would be. The Czech Republic, a country that privileged mass privatisation, has much suffered from asset looting.

The World Bank (2002) eventually abandoned its program of swift privatisation in PTEs after many sharp criticisms about the so-called loans for shares scheme, which relied on bank loans with manufacturing assets as collateral (Andreff, 2005). This scheme was a forerunner to inventions that occurred in financial markets in the 2000s. It was implemented in Russia in 1995 and definitely discredited privatisation deals in this country. The deal was as follows: the heavy fiscal deficit of Russian government was covered in 1995 by loans from a few major Russian commercial banks; the loans were guaranteed by collateral allocated on auction. The collateral consisted in stocks of the best state-owned enterprises still not privatised. If in September 1996, the government would not be able to repay the loans, each bank could either sell the stocks deposited as collateral or keep them as its own property. The Russian Government, indeed, was not able to repay in due time and all the banks opted for keeping stocks as their own; they grabbed assets through lending money to a client not capable to repay the loan and took over the "crown jewels" of Russian manufacturing industry. This enabled a dozen of bankers/oligarchs, connected to President Yeltsin, to grab the best of Russian industrial assets for peanuts (Hedlund, 2001). This deal was soon qualified infamous and naked grabbing, including by the World Bank (Birdsall and Nellis, 2002). It had nothing to do with the usual rules of capitalism, but later on, it inspired other bankers elsewhere in the world.

Privatisation is key factor of growing inequalities in wealth, revenues and power distribution. In Russia and the CIS, 2 million people (0.7 per cent of the population) own all the new private property, and 2 per cent of rich Russians save 54 per cent of overall savings (Andreff, 2007). Wealth concentration in Central Eastern Europe, though a little bit lower than in Russia, primarily benefits those who were able to grab assets at discount prices or for free during the privatisation drive.

Asset grabbing has spread from PTEs to developed capitalisms in a kind of mimetic contagion. Trading and investing in PTEs, including through trans-border mergers and acquisitions of privatised firms, a number of Western companies were confronted with asset grabbing, sometimes suffering from it, often directly or indirectly benefiting from it. At the dawn of transition, privatisation through asset sales to foreigners was forbidden or restricted by law, but it became predominant by the end of the 1990s, in particular in the banking sector. These banks were dramatically exposed to cross-border lending contagion in multinational banking (Derviz and Podpiera, 2011). Western competitors seriously felt the competitive pressure of these newly privatised firms, not strong in terms of profitability but from financial payoffs, and they were able to derive from assets acquired for free or peanuts.

المنارة للاستشارات

www.

The impunity of asset grabbing practices in PTEs provided incentives for transnational corporations and banks from developed capitalisms to mimic the behaviour of newly privatised firms and banks owners. International relocation of asset grabbing moved first to tax havens. Then grabbing practices were imported to the most developed core capitalism, once a way out to impunity had been found there. Discount-price asset grabbing, over-the-counter stock trade, LBO, bad loan securitisation, inside dealing, lending to insolvent clients and Ponzi schemes, all have thrived throughout the entire global economy. Mimetic contagion is not a one-way avenue: banks from PTEs also mimicked Western bankers with excess risk-taking. In fact, most banks in PTEs fell into insolvency between 2007 and 2009 whether they were affiliates of multinational banks in dire financial straits or not (Dietrich *et al.*, 2011).

The competitive co-existence of two opposing systems was difficult for capitalist economic discipline, but it faded away in 1990. Since then, many drifts beyond the formal rules have spread cross-border throughout the two systems with deregulation, globalisation and "financialisation" of the economy. A levelling off the playing field ideology minimised all the constraints that hinder naked competition and facilitated mimetic contagion of asset grabbing practices.

Subprime mortgage loans were innovated – not really as Russian bankers had the same idea earlier – by lending to insolvent clients. The purpose was to artificially inflate the housing demand, though with taking a rash risk. Then American banks transferred the risk on to other holders through securitisation of bad loans because they could not rely on collateral of a similar size and quality. In case of non-repayment, they could at best seize foreclosed houses, which had been financed with subprime loans. The seizure would grab assets depreciated by the collapse of the real estate market. However, this cannot be compared with the Russian banks' loans for shares scheme in terms of asset grabbing magnitude. The return on despoiling American poor was much lower than the one of capturing the crown jewels of Russian manufacturing industry.

A liar loan to a poor American did not require that he/she exhibited and justified revenue big enough to repay the loan. Nevertheless, this was a means for banks to grab real assets at extremely low prices in case of non-repayment; thus, a liar loan was also coined a predatory loan. Lending to insolvent clients was a bank's strategy and not only a result of a weak incentive for banks to correctly assess the borrower's creditworthiness, or of a simple relaxation in borrower selection criteria. Furthermore, when banks wittingly lend to insolvents, they urgently need either substantial collateral to hedge against tremendously high risk (Russian banks) or to get rid of such risk through securitisation (American banks).

Bad loan securitisation enables a bank to clean off its balance sheet and, by the same token, circumvent capital ratio regulation, transfer the risk to portfolio investors who buy its securities and immediately recover liquid assets that will be used to finance liar loans again. A bank gives up its too risky assets to a structured investment vehicle, which is an off-balance sheet vehicle that finances its asset purchase by issuing securities on the market. The bank is interested in selling bad loans at higher price than their cost, thus making a certain profit and passing on to security buyers the burden of risk holding and the hope of making money from it. Here grabbing financial payoffs and liquid assets occur. These gains are not reinvested in the real economy; instead, these are poured again in rash risky financial bets such as subprime mortgage loans followed by their securitisation, and so on and so forth.

Compared to the aforementioned financial gains, seizing real estate and houses is of no interest *per se* for a bank except that, in case of crisis, seized houses happen to be real assets grabbed without any risk, as the risk is held by portfolio investors who beforehand have

المنارة للاستشارات
www.

bought the corresponding securities. This process is at odds with capital accumulation; it is rather a double predation by banks that is detrimental to both subprime borrowers (who lose their houses) and portfolio investors in securitised bad loans who are stuck with bad-quality securities though classified AAA by credit rating agencies. Asset grabbing becomes crystal clear when a financial institution advertises, then recommends and sells a given financial product to its clients while selling it short on its own. For instance, the Paulson and Co. hedge fund co-operated with Goldman Sachs to create a collateralised debt obligation-labelled Abacus. Then the fund's managers betted on a market price fall of Abacus while they were selling it to portfolio investors.

Other wealth is grabbed by selling low-quality securities; this grabbing is detrimental to portfolio investors and actually despoils them. Goldman Sachs grabbed enough assets to commit itself to paying the SEC, in July 2010, a $550m compensation for having cheated its clients – an amount which represented a two-week profit of the bank in 2009 (Raufer, 2011). New financial products have become increasingly sophisticated and nontransparent with regard to the incurred risk holding; this pertains to futures, derivatives and collateralised mortgage obligations. All are predatory as they transfer the risk to portfolio investors without actually transferring a quality asset. Portfolio investors are cheated. With credit default swap (CDS), only the estimated risk of the portfolio is transferred and hedged against with credit derivatives. Derivatives grow as risk exacerbating tools for speculation, as a financial institution that has initially granted a credit is more interested in expanding this activity rather than checking the quality of its bad debts. The tools used for transferring the risk have mushroomed to such extent that nobody knows who holds what any longer.

Hidden risks only reveal themselves when a crisis bursts out. Then, those financial institutions that hold excess risk must actually repay with their own assets or possibly go bankrupt or eventually are bailed out by the government. During a crisis, their own depreciated assets are grabbed at discounted prices by other financial institutions with lower risk exposure (the acquisition of Bear Stearns by JP Morgan for $10 a share instead of $170 two months earlier). The occurrence of a crisis materialises an asset grabbing process of big-risk holders, which was only possible as long as the financial euphoria was lasting.

A stock-option is a right allocated to a manager of buying stocks below market price, as the purchasing price (exercise price) is fixed in advance and remains constant. If the market price rises, a stock-option holder will be able to buy stocks at the exercise price and resell those at a quite higher market price, pocketing a surplus value. This does not incur any risk of losing money for the holder because, if the stock market price falls lower than the exercise price, the holder will not exercise his/her option. Stock-options turned out to be a civilised manner for managers for tunnelling assets toward their own property and stripping small shareholders.

As stock-options make managerial compensation pending on the outcome of stock market bets, this drives the managers to take rash risks in view of inflating the stock market price of their company. They leave no room for chance, thanks to privileged insider information, and are not sanctioned if they fail. Therefore, it is a game in which "heads I win, tails you lose" rules; a statement is also heard to stigmatise trader remuneration and bad loan securitisation. Issuing new financial products, bad debt securitisation, hedge fund management, speculation, price manipulation, and short selling are what drive daily decisions made by managers, whereas most stockholders are left remote from the theatre of operations. Stockholders have discovered that they have hired extremely well-paid managers who eventually work exclusively on their own and grab without risk an important share of the bank's or firm's wealth.

المنارة للاستشارات

www.

Using financial markets to supervise companies' management has transformed the corporate governance regime and reinforced the power of an oligarchy, which circulates throughout listed corporations and investment banks to extract non-shared profit and tunnel it outside the company with stock-option surplus values, golden parachutes and preferential allocation of stocks when a merger or acquisition occurs. All these are not without its embezzlement and collusion between firms' insiders and the finance sector decision makers. Indeed, the new oligarchy is a motley crew: bankers, chief executive officers (CEOs) and managers benefiting from stock-options, merging industry-finance oligarchs, and heads of institutional investors, all are both insiders and outsiders; in addition, traders, speculators as well as some crooks, *maffiosi* and criminals close the list (and the league) of so-called oligarchs[2]. They are broadly similar and cohesive due to a common swift enrichment based on immediate grabbing of assets first, and then tax evasion.

Dore (2000) correctly contended that betting in financial markets has joined other games in everyday life activity, on the job and during leisure time. Bets are becoming pillars of the entire economic system. From games of chance to online sport betting, many people seek monetary gains from betting in their everyday life. People are so addicted to betting in most Asian countries, the Balkans, Central America, and tax havens that it is now an actual way of life. Online sport betting shows up many similarities with the complex functioning of financial markets (Andreff, 2017). When connected to online betting, as it is nowadays the case, match fixing is a whole industry. The market of match fixing and betting has become global, as those who fix the matches are internationally connected through various global networks (Hill, 2009), just like Russian or Chinese oligarchs and all bankers. Match fixing has a single objective: enrich oneself at the fastest pace and with the highest possible certainty to win. Rigging the game is a rather risky business – due to potential sanctions if caught – but extremely lucrative. Fixed matches are also used as a tool for money laundering by asset grabbers and organised crime. Thousands of online sports betting websites circumvent any sort of regulation and these are accessible from anywhere in the world within a second. Match fixers are not easy to be caught and sanctioned, just like oligarchs, bankers, and hedge funds managers accountable for asset grabbing.

3. Greedy behaviour based on cheating the formal rules

Cheating the formal rules of capitalism in view of grabbing assets has become a usual game in a sort of global shadow economy. Fraudulent accounting often conceals these predatory practices. Cooking the books and cheating accounting rules are useful tools for success in asset grabbing. Managers have high incentives to disclose fallacious information to small shareholders. Those managers compensated with stock-options have incentives to do all they can to push up the company's stock market price, in particular to invent imaginative accounting (Stiglitz, 2010). They are used to disclosing high-profit data that will propel stock prices up. Audits often suggest appealing clients with dubious practices that exhibit a company's fallacious image. Firms hire highly paid audits to deliver a loose assessment of the company and look at book-cooking and financial manipulations with blind eyes, which help preserving their AAA ratings. Otherwise bankers and portfolio investors would fly away and never invest in a number of firms if their real balance sheets were disclosed. Arthur Andersen was a world champion of fake accounting when working with Enron, Worldcom, Sunbeam, Waste Management, Global Crossing, Halliburton, Qwest, Dynegy and Colonial Realty.

The number of fraudulent bankruptcies has grown without entailing any state intervention, which means that infringing the rules of capitalism implicitly becomes an

المنارة للاستشارات

www.

accepted mode of governance; only a few are cracked down. Genuine white-collar criminality is condemned but still goes on. Fraud is integrated by managers as one mode of management, if not regular, at least systematically resorted to in case of financial dire straits. Absence of accounting and financial transparency characterises all the new rich in PTEs, financial traders and oligarchs. Those audits that analysed Enron and maintained a favourable assessment until bankruptcy had the purpose to cheat and mislead portfolio investors. Account dressing shows up a picture as if a new wealth were created that indeed does not exist. Capitalist rules are circumvented until the point where a genuine informal or shadow global economy emerges.

Outlawed since 1920 in the USA, Ponzi schemes re-emerged as mass swindling during PTE privatisation. For instance, Albania's privatisation drive was plagued in 1997 with 16 Ponzi schemes offering up to a 100 per cent return per month; they collected \$1.2bn, that is, 50 per cent of the Albania's GDP value at that time. Half Albanese Government members were involved as promoters of financial pyramids; they had to resign and some of them were sued for illicit enrichment. The subsequent financial crisis destroyed over 30 per cent of Albanian domestic enterprises (Andreff, 2007). Most fortunes built up thanks to Ponzi schemes remained unpunished in other PTEs. They were used for the enrichment of a few who leveraged on gullible people savings. This was revealed to be a contagious practice, as at the same moment, Ponzi schemes suddenly sprang up again in the USA.

Madoff's financial pyramid was designed as a global network continuously pumping out liquid savings like machinery (and machination) geared toward permanent liquid asset grabbing. Among Madoff's victims were hedge funds and big banks whose confidence was close to naivety or, more probably, connivance. Even Russian oligarchs and Latin-American drug-dealing *maffiosi* were abused by Madoff (Aglietta *et al.*, 2010). Asset grabbers in turn had their assets grabbed! Competition across oligarchs does not exclude some duping others.

Subprime loans are a variant of a financial pyramid, as it is a scheme whose solvency is not guaranteed by revenues. When house buyers sign up to their loan, they do not have at hands revenues or assets to repay the debt. A borrower thus enters an attractive low-cost credit system relying on a promised purchase of real estate whose value must increase faster than his/her credit cost. What the borrower does not see is that he/she is enrolled in a diabolic spiral that only works as long as the real estate bubble inflates. When borrowers pay their interests on subprime loans, the bankers grab a speculative surplus value resulting from price inflation in the real estate market. However, a financial pyramid crashes down as soon as the number of entering participants stops growing or confidence fades away.

Small-scale Ponzi schemes – like Madoff's (an estimated \$65bn predation) – drive their initiators to be sued in court. If a similar scheme is built up at the whole banking system scale, as it ensues from subprime loans, then it cannot be sued. It is definitely beyond the rules of capitalism ad a global, systemic and tolerated fraud contravenes such rules; underneath the global fraud, a number of individual frauds are swarming such as offering loans to borrowers who are not eligible. The registered number of suspected financial frauds grew up from 1,318 in 1996 to 63,173 in 2008 in the USA (de Maillard, 2011). Most suspicions refer to predatory lending, that is, loans whose ultimate aim is asset grabbing. When fraud happens to be the norm to such an extent, and no longer an exception, capitalism's rules no longer prevail. Capitalism cannot be defined by the permanent violation of its own rules. In addition to breaching trust, illegal enrichment, insider dealing and price manipulation, banks and financial institutions are increasingly blamed for intentional mistakes, fraud and from time-to-time economic crime. Those who are blamed are not only marginal rule cheaters like Madoff but also the biggest banks in the world.

المنارة للاستشارات
www.

In all the previous bad practices, there is a risk that financial actors who infringe the rules fall into economic delinquency and crime where they are going to meet organised crime (Mafia, traffickers, and dealers). The first area for such meeting is located in PTEs where economic reforms have created financial markets that do not finance new investments in the real economy but enable cunning managers to deal and fly away with others' money (Stiglitz, 2002). Stiglitz added that they would have been sentenced as crooks or white-collar criminals in the USA. In Russia, one businessman out of six has been prosecuted for having committed a recognised economic crime in the past 10 years. When organised crime reached its climax in Russia in 1998, it took over 50 per cent of all commercial banks, 60 per cent of state-owned enterprises and 40 per cent of private firms (UNODCCP, 2001). The size of the Russian criminal economy sounds smaller today because a part of it melted away into the formal economy.

The drifts of financial capitalism also lead to merging legal, shadow and criminal activities. Borderlines are blurred and fluctuate across these three areas of activity and depend on the changes that may occur in the formal rules of capitalism. For instance, 130 American savings and loans banks have laundered an estimated $5bn of Mafia's money, and these deals are not without relationship to their bankruptcy. In 2008, when deprived from liquidities, several banks absorbed important flows of criminal money and some were financially saved by this dirty money inflow. Among others, American Express Bank, Western Union, HSBC and Banco Santander were spotted for their involvement in money laundering (Raufer, 2011). Few bankers have received a penal sentence so far. Those guilty of fraud are rewarded twice, by financial payoffs and by impunity.

4. Institutionalising a systemic greed-led economy: state capture and rule changes

Circumventing and perverting formal institutions are a means for asset grabbers to achieve their winning bets with certainty. If such means do not suffice for securing substantial financial gains and asset grabbing without risk, oligarchs then resort to state capture and lobbying. Once the state is captured, they attempt to obtain a marked change by breaking up the old formal rules.

For instance, *de facto* a bank has incentives to provide new finance to an indebted firm as soon as it fears that its initial investment in it is going to be irrecoverable. The correlation between banking credit to enterprises and their payment arrears strengthened all over the 1990s in PTEs (Berglöf and Roland, 1998). Facing their resulting loan portfolio deterioration, the government bailed the banks out, which meant to them that they could afford lending to insolvent enterprises again and again. If, in case of bad loans, a bank knows that the government will bail it out ex post, it has an incentive "to gamble on resurrection" (Roland, 2000), and it does not liquidate its too risky assets. This behaviour in turn increases the probability of a bank being bailed out ex post. Then the state is captured by banks. The size of big banks (too big to fail) and, indirectly, the overall magnitude of their bad debts spread over a great number of big firms (too many to fail), increasing the probability of contagion and systemic risk; this makes the state being captured by the banks even more necessary. In such circumstances, one bank's bankruptcy must have such high costs that it is preferable that the loans be renewed (Mitchell, 1998). To avoid such bank behaviour, the government should have intervened ex ante to prevent banks from gambling on resurrection. This could have been done with tight control over the banks or bigger initial bank capitalisation. As these conditions were not in place, the government was compelled afterwards to take over bad debt management and financial cleaning of the banks' balance sheets.

المنارة للاستشارات

www.

The same consequences of banks' bad debt management were found as a core issue in the USA savings and loans bail outs and the banking crisis in Asia. Regarding the biggest banks in the world, the certainty of being bailed out by the state has phased out their fear of lending to insolvents and then passing bad debts on to all the finance business through securitisation. The 2008 financial crisis has strengthened the banks' belief that it will be the same again and again, as a number of them have been actually bailed out by the government. Consequently, taxpayers took on losses, whereas bankers got public money. Some US banks even sold the great bulk of CDS they were holding on the US Government; then it was obvious that they were speculating on their own government failure. The banks are too big to fail but big enough for jeopardising government finance. The plan for rescuing US banks in 2009 extended the state guarantee, and provided them a new encouragement to take ill-considered risks. A few bankruptcies and banking concentration have made the "too big to fail" threat even more significant, have worsened state capture by big banks, have shortened contagion circuits and have paved the way for a next crisis sequence.

State capture by banks easily drifts into having a political dimension. Those banks that are too big to fail also are too powerful on political grounds, and the normal rules of capitalism are suspended to protect their stockholders and those investors who buy their securities (Stiglitz, 2010). With the financial crisis, the rules that do not suit bankers' strategies are changed. The international financial oligarchy has succeeded in convincing the governments to transform excess debts of private banks into public debt. When it increases its public debt, a state deliberately subordinates itself to those who hold huge extra money (Jorion, 2011), that is, asset grabbing oligarchs.

Social acceptance of informal, sometimes purely illegal practices as new functioning rules, the state being captured through lobbying (Hanson and Teague, 2005), and oligarchs dominating the economy (Guriev and Rachinsky, 2005) have characterised Russia and most PTEs in the past 25 years. A similar situation has emerged in developed countries and the global economy. Oligarchs, banks and investment funds are the major winners from deregulation. No regulator or supervising authority actually reacted after witnessing that banks were increasingly lending to too risky investors. The banks neglected and then contravened prudential rules. Hedge funds circumvented with complete impunity those rules that they considered did not fit with their business. Regulation of derivatives was rejected.

Facing the formal rules of capitalism, oligarchs succeeded in circumventing, manipulating, avoiding their enforcement or having them abolished. Structured investment vehicles were held by banks without sticking to the own asset requirements (Orléan, 2009). Repealing the Glass–Steagall Act enabled investment banks to collect savings deposits, exposing them to financial bets and fraudulent practices. The oligarchs' objective is to divert common rules to their exclusive benefit in such a way so as to win financial bets every time with certainty. They modify the rules during the game in financial markets and then the non-initiated suffer from disproportionate losses. A consensus was reached in the highest finance and political authorities that the rules in force have ceased to be enforceable; this argument is used as an excuse by oligarchs for manipulating them. Hedge funds, which are submitted to few information disclosure constraints, have vested interests in manipulating the regulation authorities and are quite free to do so. This is what they did before 2008 and again when they attempted to prevent political decision makers to regulate their activity after 2008 (Aglietta *et al.*, 2010). Through manipulating formal rules, the oligarchy secures the self-fulfilment of its own prophecies in terms of financial payoffs and asset grabbing.

Instead of formal rules that do not fit with their grabbing strategies, oligarchs elaborate on informal practices, sometimes illegal, which make them sure of winning all the financial bets they undertake. Much widespread informal rules at work in PTEs flooded into

المنارة للاستشارات

www.

developed capitalisms. Then the very concept of fraud, meant as breaching a beforehand-established norm, becomes blurred. Fraud does not mean any longer getting over ex ante clearly defined prohibition but it refers to predatory behaviour witnessed ex post. The great bulk of asset grabbing is based on the fuzziness that now plagues the rules of capitalism. When the violation of a formal rule is not sanctioned, or the sanction is not significant enough, the point is reached where social acceptance and validation of an informal practice start-up. The risk of being sanctioned for unfair operations in financial markets has vanished these days, as the CDS business exhibits it.

Deregulation brought incentives to commit frauds in unknown proportions and it opened a period of lax law and rule enforcement, leading to a partial criminalisation of finance with regard to the formal rules of capitalism. But, the same frauds should not necessarily be considered as criminality in a context of mushrooming informal rules specific to systemic transition periods. Getting rid of constraining norms, oligarchs can grab assets in an illicit, fraudulent or criminal way without bearing any sanction when informal rules are spreading throughout the economy. They can legally follow up the same (previously informal) practices if the latter once happen to be formalised in a new institutional arrangement alien to the formal rules of capitalism. The current compensation norms of CEOs and traders, and banking bonuses which would have been deeply shocking or even forbidden in some countries in the 1990s, ended up as being informal, and then formal rules. Lending to insolvents or toxic financial products started up as informal practices but then was increasingly accepted as the rule of the game. Step by step, frauds not only became tolerated but also increasingly appeared legitimate to many economic actors. Then the situation was ripe for oligarchs to attempt obtaining that their informal practices be validated by the state and some formal rules. Those tricks, frauds and crimes that are used for asset grabbing became systemic and opened an avenue that drives out of the rules of capitalism as fraud, predation and despoilment started to be acknowledged and accepted as usual modes of economic governance. The previously sanctioned predatory methods ceased to be sanctioned. The economy entered an era of "legal swindling", an oxymoron that exhibits the exit from capitalist legality on a path toward new formal rules alien to capitalism.

Finally, oligarchs do capture the state in view of having new formal rules passed by Parliament or adopted by other authorities, thus ratifying and validating their former informal practices. The networks linking financial oligarchy to political power are mobilised to influence mapping out new rules and laws, and their enforcement. Russian big firms and banks maintain good relationships with the Kremlin. The best "national champions" of Russian industry are under the control of few oligarchs who are openly welcome to the Kremlin. In China, big companies are financially supported by the state and managed by a narrow circle of businessmen well acquainted with or introduced to the Communist party. In the USA, the industry of auditing agencies has devoted $15m to lobbying in 1998-2000 to influence the house members and senators in favour of deregulation (Stiglitz, 2003).

Oligarchs' lobbying aims at promoting rules that favour financial bet winners and open opportunities for asset grabbing. Updating the banking sector regulation (Frank–Dodd Act) has reshaped it in accordance with the bankers' expectations so that speculation, the most profitable banking activity, is not only safeguarded but also optimised. Proactive lobbying has ensured that no regulation would prevail over financial products that are aimed against subprime loan securitisation. The net capital rule or Pickard regulation, set up in 1975, delineates the highest allowed rate of leverage (a maximum multiplier of 12) for investment banks. Under pressure of the biggest banks, the SEC admitted a twice-higher rate and tolerated bigger leverage. By early 1998, LTCM had a leverage multiplier of 25 and the Carlyle Capital's was 30 before it went bankrupt early 2008.

المنارة للاستشارات

www.

While waiting for further research and statistical estimation, a preliminary assessment of the greed-led activities is probably about one quarter of global economy (Andreff, 2013b); that is enough to consider the greed-led sector as an economic system in the making within the surrounding global capitalist system.

5. Conclusion

The greed-led part of the economy that has emerged does not function any longer in accordance with the formal rules of capitalism. It is much more non-equalitarian than the wage earners' domination by capitalists. Paraphrasing Comte-Sponville (2004) who wrote about capitalism, "no law forbids egoism", in the greed-led economic system in the making, no law forbids either greed or addressing incentives to enrich oneself without limit.

Unlimited enrichment is rooted in three cumulative sources:

(1) maximising revenues (profit and interest) derived from assets, which is typical of capitalism;

(2) increasing at a forced pace the value of assets invested in the real economy by aligning its growth on a norm for shareholder value growth, which is typical of global "financialized" capitalism; and

(3) systematic and continuous asset grabbing (predation and despoilment) without reinvesting the grabbed assets into production.

This model has spread from Russia to the Anglo-American capitalism and has started to be represented as an economic system where the winners take all, a Winner-Take-All-Society (Frank and Cook, 1996). In capitalism, investing consists in taking a calculated risk with a win uncertainty about net revenues. In a greed-led system, no one invests this way, but instead anyone and everyone bets, and oligarchs manipulate the rules to win their rash bets and, as far as possible, take all. Asset grabbing instead of capital accumulation, systemic greed and winner-take-all instead of usual profit-making sounds like radical change; but the theoretical question is to know whether a greed-led economy paves the way to a new phase of capitalism or consists in a transitional form actually breaking away from capitalism, that is, a transition to an unknown and unintended post-capitalism. This theoretical alternative requires further analysis by digging deeper and longer into economic theory.

Notes

1. A long list of greedy behaviours was surveyed in Andreff's study (2013a), namely, when a company buys its own stocks, management-employee buy-outs financed with cheap (or free) credit, hedge funds activity, many new products created by market finance (dark pools, flash trading, collateralised debt obligation [CDO], collateralised mortgage obligation [CMO], credit default swap [CDS] and derivatives), short selling, stock options, fraudulent fake accounting, fraudulent bankruptcies, financial pyramids, tax evasion, shadow banking and financial criminality.

2. Once again, this evidence shows up with the recent *Paradise Papers*.

References

Aglietta, M., Khanniche, S. and Rigot, S. (2010), *Les hedge funds. Entrepreneurs ou requins de la finance?*, Perrin, Paris.

Andreff, W. (1976), *Profits et structures du capitalisme mondial*, Calmann-Lévy, Paris.

المنارة للاستشارات
www.

Andreff, W. (1992a), "Convergence or congruence between eastern and western economic systems", in Dallago, B., Brezinski, H. and Andreff, W. (Eds), *Convergence and System Change. The Convergence Hypothesis in the Light of Transition in Eastern Europe*, Dartmouth, Aldershot, pp. 47-85.

Andreff, W. (1992b), "French privatisation techniques and experience: a model for central eastern Europe?", in Targetti, F. (Ed.), *Privatization in Europe: West and East Experiences*, Dartmouth, Aldershot, pp. 135-153.

Andreff, W. (1995), "Le contrôle des entreprises privatisées dans les économies en transition", *Revue Economique*, Vol. 46 No. 3, pp. 763-772.

Andreff, W. (2000), "Privatisation and corporate governance in transition countries: beyond the principal-agent model", in Rosenbaum, E.F., Bönker, F. and Wagener, H.-J. (Eds), *Privatization, Corporate Governance and the Emergence of Markets*, Macmillan, London, pp. 123-138.

Andreff, W. (2005), "Russian privatization at bay: some unresolved transaction and governance cost issues in post-Soviet economies", in Oleinik, A. (Ed.), *The Institutional Economics of Russia's Transformation*, Ashgate, Aldershot, pp. 213-244.

Andreff, W. (2007), *Economie de la transition. la transformation des économies planifiées en économie de marché*, Bréal, Paris.

Andreff, W. (2013a), "Crisis as unexpected transition … to a greed-based economic system", in Zarembka, P. (Ed.), *Contradictions: Finance, Greed, Labor Unequally Paid, Research in Political Economy*, Emerald, Vol. 28, pp. 1-48.

Andreff, W. (2013b), "Une transition économique inattendue: vers le «cupidalisme»? revue de la régulation", *Capitalisme, Institutions, Pouvoirs*, 14, 2e trimestre, Autumn 2013, varia (on line).

Andreff, W. (2017), "Complexity triggered by economic globalisation: the issue of on-line betting-related match fixing", *Systems*, Vol. 5 No. 1, pp. 1-18.

Berglöf, E. and Roland, G. (1998), "Soft budget constraints and banking in transition economies", *Journal of Comparative Economics*, Vol. 26 No. 1, pp. 18-40.

Birdsall, N. and Nellis, J. (2002), *Winners and Losers: Assessing the Distributional Impact of Privatization*, Center for Global Development, Washington, DC.

Blasi, J., Kroumova, M. and Kruse, D. (1997), *Kremlin Capitalism: The Privatization of the Russian Economy*, Cornell University Press, Ithaca, NY.

Bouin, O. and Michalet, C.-A. (1991), *Le Rééquilibrage Entre Secteurs Public Et Privé: L'expérience des pays en développement*, OCDE, Paris.

Boycko, M., Shleifer, A. and Vishny, R. (1995), *Privatizing Russia*, MIT Press, Cambridge, MA.

Comte-Sponville, A. (2004), *Le Capitalisme Est-il moral*?, Albin Michel, Paris.

de Maillard, J. (2011), *L'arnaque*, 2e éd., Gallimard, Paris.

Derviz, A. and Podpiera, J. (2011), "Cross-border lending contagion in multinational banks", in Kolb, R.W. (Ed.), *Financial Contagion: The Viral Threat to the Wealth of Nations*, Wiley, Hoboken.

Dietrich, D., Knedlik, T. and Lindner, A. (2011), "Central and Eastern European countries in the global financial crisis: a typical twin crisis?", *Post-Communist Economies*, Vol. 23 No. 4, pp. 415-432.

Dore, R. (2000), *Stock Market Capitalism: Welfare Capitalism. Japan and Germany versus the Anglo-Saxons*, Oxford University Press, Oxford.

Frank, R.H. and Cook, P.J. (1996), *The Winner-Take-All-Society: Why the Few at the Top Get so Much More than the Rest of Us*, Penguin Books, New York, NY.

Freeland, C. (2000), *Sale of the Century: Russia's Wild Ride from Communism to Capitalism*, Crown Business, Random House, New York, NY.

Frydman, R. and Rapaczynski, A. (1994), *Privatisation in Eastern Europe: Is the State Withering Away*?, Central European University Press, Budapest.

المنارة للاستشارات

www.

Guriev, S. and Rachinsky, A. (2005), "The role of oligarchs in Russian capitalism", *Journal of Economic Perspectives*, Vol. 19 No. 1, pp. 131-150.

Hanson, P. and Teague, E. (2005), "Big business and the state in Russia", *Europe-Asia Studies*, Vol. 57 No. 5, pp. 657-680.

Hedlund, S. (2001), "Property without rights: dimensions of Russian privatization", *Europe-Asia Studies*, Vol. 53 No. 2, pp. 213-237.

Hemming, R. and Mansoor, A. (1998), *Privatization and Public Enterprises*, IMF, Washington, DC.

Hill, D. (2009), "How gambling corruptors fix football matches", *European Sport Management Quarterly*, Vol. 9 No. 4, pp. 411-432.

Jessop, B. (2002), "Liberalism, neo-liberalism and urban governance: a state-theoretical perspective", *Antipode*, Vol. 34 No. 3, pp. 452-472.

Jorion, P. (2011), *Le capitalisme à l'agonie*, Fayard, Paris.

Mitchell, J. (1998), "Strategic creditor passivity, regulation and bank bailouts", CEPR Discussion Paper Series No. 1780.

Orléan, A. (2009), *De L'euphorie à la panique: penser la crise financière*, Editions Rue d'Ulm, Paris.

Raufer, X. (dir.) (2011), *La finance Pousse-Au-Crime*, Choiseul, Paris.

Roland, G. (2000), *Transition and Economics. Politics, Markets and Firms*, MIT Press, Cambridge, MA.

Stiglitz, J.E. (2002), *Globalization and Its Discontent*, W.W. Norton, New York, NY.

Stiglitz, J.E. (2003), *The Roaring Nineties*, W.W. Norton, New York, NY.

Stiglitz, J.E. (2010), *Freefall: America, Free Markets, and the Sinking of the World Economy*, W.W. Norton, New York, NY.

Tinbergen, J. (1961), "Do communist and free economies show a converging pattern?", *Soviet Studies*, Vol. 12 No. 4, pp. 333-341.

UNODCCP (2001), *Russian Capitalism and Money-Laundering*, United Nations Office for Drug Control and Crime Prevention, New York, NY.

World Bank (2002), *Transition – the first Ten Years: Analysis and Lessons for Eastern Europe and the Former Soviet Union*, World Bank, Washington, DC.

Young, B. (2014), "German ordo-liberalism as agenda setter for the Euro crisis: myth trumps reality", *Journal of Comparative European Studies*, Vol. 22 No. 3, pp. 276-287.

Corresponding author
Wladimir Andreff can be contacted at: andreff@club-internet.fr

For instructions on how to order reprints of this article, please visit our website:
www.emeraldgrouppublishing.com/licensing/reprints.htm
Or contact us for further details: **permissions@emeraldinsight.com**

www.

Reproduced with permission of copyright owner. Further reproduction prohibited without permission.

www.