2

CAPITALISM, CORPORATOCRACY, AND FINANCIALIZATION: IMBALANCES IN THE AMERICAN POLITICAL ECONOMY

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ABSTRACT

A fundamental re-thinking in the balance between markets and government is required today in the United States. The progressive liberalization of markets and withdrawal of government intervention since the 1980s has led to clear consequences. The modern state of corporate hegemony in politics, financial instability, low growth and rising inequality serve as stark reminders to the shortcomings. This paper examines the effects that neo-liberal policies over the past thirty years have had on the modern political inequality and economic instability. The paper concludes that an imbalance between markets and government has been central to the problems we observe today. To confront modern challenges, America requires a re-strengthened and reformed state – one that will evict special interests, present a properly regulated market economy and reinstitute a new moral direction for our nation's future. Only by resolving the balance between private markets and government regulation can we restore the nation that represents the freedom, equality, prosperity and compassion that is America at its best.

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I. INTRODUCTION

Capitalism and democracy are often characterized as the twin virtues that have defined America's modern history and success. But capitalism and democracy do not uniformly co-exist: more free enterprise does not always afford a better democracy. Instead, there has always existed an intricate balance between free market principles and strong democratic governance, oftentimes counterbalancing one another, that has been the true determinant of the long-run health and sustainability of a political and economic system. America's past success in becoming the world's leading economic and political power was founded and sustained by managing the balance between markets and government better than perhaps any other country in history. The ingenuity and efficiency of a market economy in partnership with the vision and moral leadership of a strong American government helped create the modern world and make it in the image of a fair and decent people.

But this balance between markets and government can break down if it is not carefully maintained. At the root of America's problems today is a prevailing imbalance of too much unregulated capitalism and too little government oversight and leadership. The progressive retreat of government over the last thirty years from responsibility in the economy and society, indoctrinated in the 1980s as a fundamental principle, has only been matched by an equally remarkable parallel expansion in the powers of organized interests, mostly notably vested in America's largest corporations. The withdrawal of government from its civic duty of managing the 'rules of the game' has allowed the progressive re-invention of a new America with record concentration of wealth and power and an increasing presence of corporate money in politics. The rise of American high finance and creation of vast new ungoverned markets has been especially pronounced – becoming synonymous with the instability that has characterized the modern economy.

This paper examines the impacts that an imbalance of too much freedom in capitalism and not enough regulation has had on political inequality and economic instability. In Section II, it discusses the imbalance in the context of the developing American *corporatocracy*, the result of weak regulation, increasing corporate financial powers and rising business organization in public affairs that has afforded a mounting political voice for America's business elite. Next, in Section III, the paper analyzes the *financialization* of the American economy in view of the rise of financial markets in a time of deregulation and important adverse consequences this financialization has had on macroeconomic stability. The paper concludes that an imbalance between markets and government has been central to the problems observed today in the nation's politics and economics. America must resolve the issue that markets and capitalism, though central in a mixed economy, do not work without proper government leadership and oversight.

II. CAPITALISM AND CORPORATOCRACY

In “Winner Takes All Politics”, Jacob Hacker and Paul Pierson write the revealing prescription that in today’s America, “the art of policymakers is not to respond to the median voter; it is to minimize the trade-offs when the desires of powerful groups and the desires of voters collide.” In short, the goal of modern governance is to respond to the concerns of special interests, not anymore to those of the middle-income electorate. But how did this come to pass?

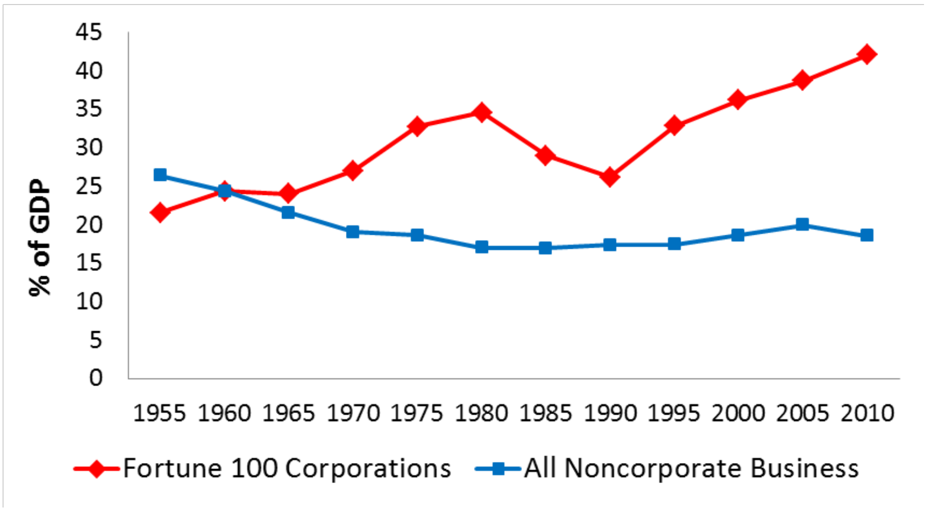
Both Hacker/Pierson and Jeffrey Sachs in “The Price of Civilization” note certain events over the past forty years that have supported the rising corporate influence in American politics. There are three key aspects that were agreed on and that the paper next explores: 1) the rise of the modern Republican doctrine (*most importantly the ideas that came out of it, which has been gradually adopted by both parties*), emphasizing lax antitrust enforcement and financial deregulation, 2) a surge in the political organization of business along with a concurrent decline in the organization of labor and 3) weaknesses in the American political process and a dramatic increase in political polarization.

First, the rise of the modern Republican doctrine in the 1980s introduced changes in antitrust enforcement policy, particularly by claiming that breaking up monopolies is inherently anti-free market and that monopoly prices are better defeated by market forces than by anti-trust laws. The “big is bad” concept from the Progressive Era was abandoned. Lax antitrust enforcement and a new wave of financial deregulation, notably the Gramm-Leach-Bliley Act (1999) that removed barriers between banking companies, securities companies, and insurance companies, fostered an era of mega-corporate mergers. As Martin Lipton writes, “companies of unprecedented size and global sweep were created on the assumption that size matters, a belief bolstered by market leaders’ premium stock-market valuations. A global view of competition, in which companies often find that they must be big to compete, and a relatively restrained antitrust environment led to once-unthinkable combinations, such as the mergers of Citibank and Travelers, Chrysler and Daimler Benz, Exxon and Mobil, Boeing and McDonnell Douglas, AOL and Time Warner, and Vodafone and Mannesmann” (Lipton, 2006). Eight of the ten largest mergers and acquisitions in US history all took place over the five year period 1998-2002, and the other two shortly followed in 2005-2006.[4] The result was the creation of mega-corporate conglomerates with vast financial prowess and the concept of businesses that were “too big to fail.” Globalization only accelerated this trend. An important result of the merger wave has been an increase in the share of national income attributed to America’s largest multinational corporations (**Display 1**) from 26% of GDP in 1990 to 42% by 2010, increasingly outsizing the share attributed to America’s non-corporate small- and medium-size businesses. In step, the Reagan revolution of the 1980s indoctrinated policies of tax cuts for the wealthy, destruction of organized labor and low

[4] Source: Online Marketing Trends

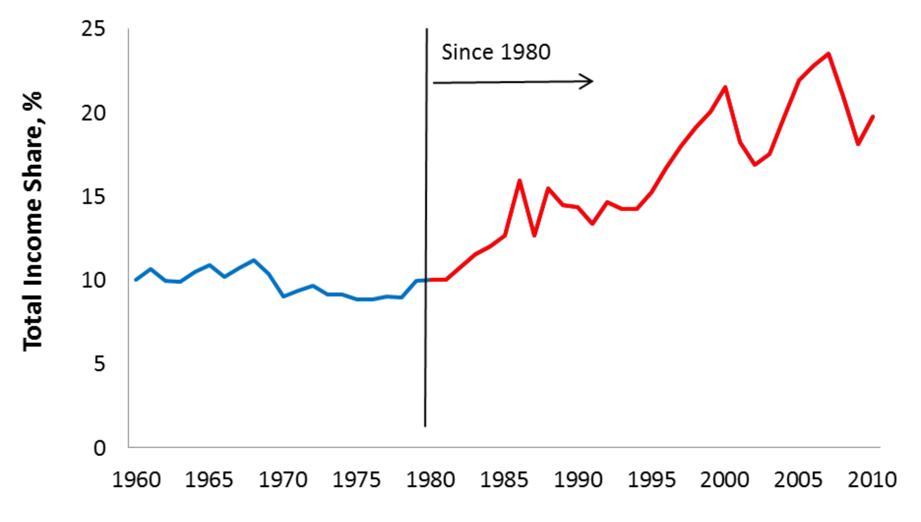
oversight on corporate structure and pay. These principles, based on free market ideology, were extended by all administrations of both parties since and have acted to support and translate higher corporate revenues to a surge in incomes of the top 1%; the income share of the top 1% has doubled from 10% in 1980 to 20% by 2010 (**Display 2**). The effect has been a concentration of financial powers in the hands of select corporate elites in America.

Display 1: Increase in Powers of Largest 100 US Corporations
Forbes US Fortune 100 Companies Total Revenues as % of US GDP



Source: Forbes Fortune 500 Lists, Bureau of Economic Analysis.

Display 2: Income Share of Top 1% Has Doubled Since 1980
Income Share of America's Top 1%



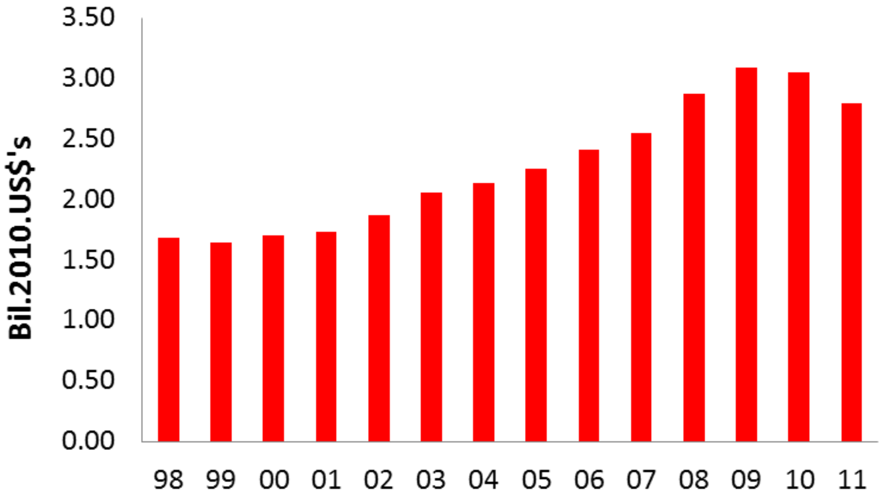
Source: Thomas Piketty and Emmanuel Saez Data.

Second, the rising financial power of America's corporations has been put into-play politically through an increasing organization of business interests since the 1970s in Washington policymaking. In 1971, only 175 firms had registered Washington lobbyists; by 1982, 2,445 did (Hacker and Pierson, 2010). Companies have organized vast pools of new resources to shape the political climate. Annual corporate lobbying outlays hit $2.8 billion in 2011 (in 2010 US$'s), up from $1.7 billion in 1998 (**Display 3**), and have been growing exponentially since the 1970s. This new voice for capitalism is rooted in not just lobbying but also extends to sources from campaign financing (*campaign contributions peaked at an all-time high in the 2008 election at $2.5bn in 2010 US dollars*), creation of conservative foundations and think-tanks, first-name relationships between CEOs and Washington politicians and direct funding of the political parties. And where regulation once existed to limit individual and corporate contributions to Political Action Committees (PACs), these limits have been broken down and removed. In an age in which money has increasing leverage to pay for expensive campaign and organizational costs, wealthy businesses hold the lever over Washington. A competition for corporate money between Washington's two big political parties has created an open market in exchange for accommodative market-friendly policies, maintaining the tide of laissez-faire ideologies already in-practice. But this rise in the voice of business has not been met by an opposing increase in the voice of labor (Hacker and Pierson, 2010). Unions have instead declined: in 1960, 30.4% of salaried workers in America were in unions; by 2005, this number was down to only 12.5% (**Display 4**). Of total lobbying outlays of $3.3 billion in 2011, only $51 million was spent by labor unions.[5] Globalization and anti-union political waves in the United States have eliminated much of labor's former voice on issues of economic and social policy. The result has been an imbalance between the political voices of business and labor.

[5] Source: Center for Responsible Politics

Display 3: Annual Corporate Lobbying On the Rise

Total Corporate Lobbying Spending[1], in Billions of 2010 US$'s

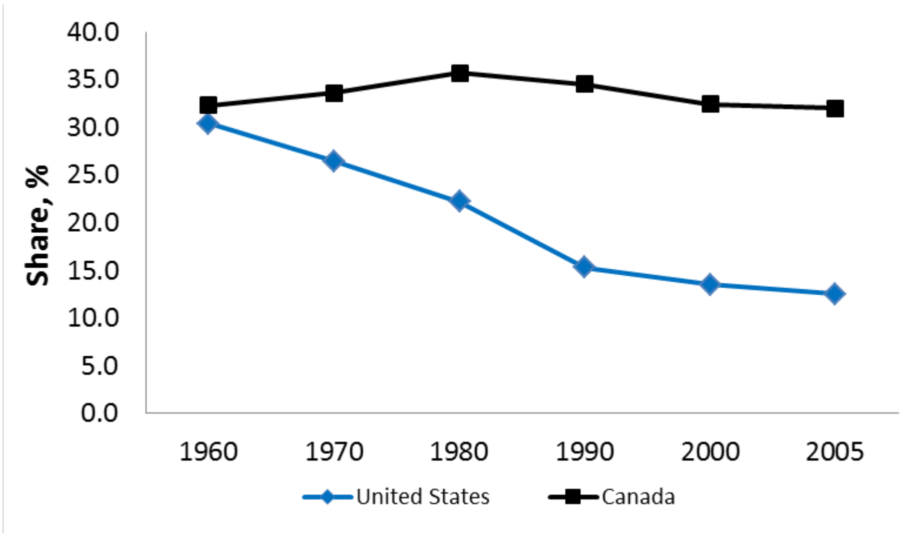


[1] Corporate Lobbying Spending = Total Lobbying ex- spending by Ideology/Single-Issue, Labor and Other Sectors.

Source: Center for Responsive Politics, Bureau of Labor Statistics.

Display 4: The Voice of Labor In Decline in the United States

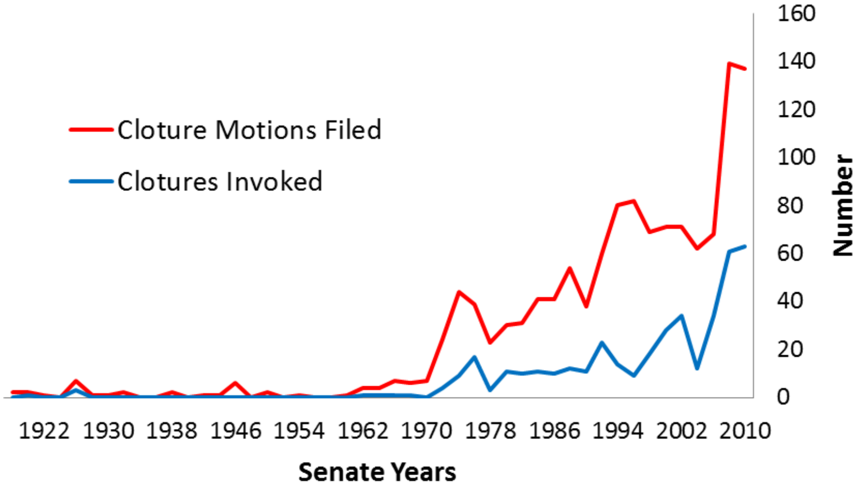
Share of Wage and Salary Workers in Unions, by Country



Source: Hacker and Pierson, "Winner-Take-All-Politics: Public Policy, Political Organization, and the Precipitous Rise of Top Incomes in the United States" (Politics & Society June 2010 vol. 38 no. 2 152-204, 2010).

Third, certain characteristics of the American political system subject it more than other national systems to the distortionary influence of big money. Sachs notes that America's weak national parties and strong political representation of individual districts represent one such characteristic: "with weak national parties and with elections to Congress in single-member districts, the main local industries and wealthy constituents in each district are likely to have great sway over each representative" (Sachs, 2011). In addition, an all-too-frequent election cycle (every two years) creates an insatiable need for campaign contributions, sometimes appearing like one never-ending election season. And an open allowance for lobbying provides the keys to policy manipulation. Next, the complexity of the US government's system of checks and balances, and the existence of delay options like the Senate filibuster, have given vested minority groups in government plenty of opportunity to block the passage of undesirable reforms. And the increasing polarization in Washington has come at an opportune time for market-friendly interests when the prevailing, benign regulatory condition is perfectly acceptable, making continued gridlock a desirable outcome. Perhaps it is unsurprising then that the incidence of cloture motions, to represent the prevalence of Senate filibuster delays, has increased dramatically over the past four decades (**Display 5**) – representing both the increasing ideological divide in Washington and the insertion of special interest politics to impede policy reform.

Display 5: Senate Filibuster Delays on the Rise
Senate Action on Cloture Motions to End Filibusters, 1917 – 2010



Source: United States Senate.

To discuss the issue of money in politics, one must begin by recognizing that inequality does in fact distort democracy. It gives an outsized voice to the few who can afford high-priced lobbyists and billions in campaign contributions to drive the debate. Large corporations today have a central role in funding both main political parties and exert policy influence like no other group. Here, it is important to acknowledge that the debate then is *not* over party lines: Sachs tellingly portrays that, “we can consider America’s political system today to be not so much a true democracy as a stable duopoly of two ruling parties, whose members shout at each other from time to time but which both basically stand for many of the same things when it comes to issues touching the interests of business, the rich, and the military” (Sachs, 2011). In this duopoly, if the Republican party has become an long-term investment to corporations, then the Democratic party has become the insurance policy to that investment. The American *corporatocracy* should rightly make the average voter suspicious of a Washington system that seems unresponsive to their needs.

A recent Rasmussen survey finds that 60% of Americans agree that ‘government is the problem’ (Rasmussen Reports, December 16, 2011) and that 71% believe that ‘government should cut spending’ such as to reduce its size (Rasmussen Reports, December 27, 2011). But here lies the unfortunate conundrum: though Americans are rightly critical of government due to the existing disconnect between public opinion and public policymaking, further limiting the responsibilities of government will *not* solve the problem. Instead, it could very well make the problem worse.

The conundrum of solving the present issues in American governance is very much compounded by the fact that Washington’s decline from public grace is itself the result of anti-government developments since the 1980s. Less government via deregulation, lower intervention and lower taxes is the exact policy prescription that progressively entered the country into the current political, economic and societal standstill. It allowed the rise of special interests, which have since put vast financial resources at work to undermine any corrective reform. If the resulting distrust in a retreating government leads only to additional calls for less responsibility to government – then the problem shows every sign of becoming a classic vicious cycle. Something profoundly different is needed – America needs a re-strengthened national government to stand up and limit the influence of special interests and reset the nation’s priorities first.

The requirement for a re-vitalized American government is especially true in a modern age that has seen the withdrawal of many former checks on corporate governance. To begin, the classic restraint on corporations provided by its shareholders has declined over recent decades. Company ownership is today managed via large investment intermediaries including pension, insurance and mutual fund managers that have low incentive to exercise controls over individual companies, because of large portfolio sizes, shortened investment windows and ample opportunity to sell shares. Andrew Haldane of the Bank of England, in a speech titled “Patience and Finance”, cited the statistic that, due to financial innovation and changes in behavior, the average holding time period of a stock following purchase has been in freefall over the past seventy years – from seven years in 1940 to less than seven months today. This change in holding periods represents a historic structural break in which stockholders have transformed over time from true long-term investors dedicated to a company into nothing more than short-term speculators. Since shareholders have become more short-term profitoriented, the phenomenon of "*ownerless corporation*," as referenced by Lord Myner of the UK Treasury, has developed whereby executives of large corporations no longer face adequate constraints from their owners.

In addition, the era of globalization has given multinational businesses large advantages over governments around the world. The basic situation is that large corporations today are multinational, while governments remain national – affording corporations an effective additional dimension of movement to seek lax policies abroad wherever and whenever governments threaten regulation or higher taxes. By continuing to act independently as nation-states and avoiding the parallel transition to international governmental cooperation, individual sovereign states continue to put themselves at a disadvantage relative to these highly-mobile companies. The age of globalization and "ownerless corporation" require greater proactive governance and cooperation by governments.

The imbalance between markets and government has played a central role in the present political and moral dilemma. When Friedrich Hayek wrote "The Road to Serfdom" in 1944, setting in motion the modern free market movement, he did so in a different time in which the risk was profoundly skewed towards too much government rather than too little in the market economy. However, in modern time, after thirty years of tax cuts, deregulation and less intervention, the risk today is not too much government involvement but *too little government*. To respond to newfound political challenges presented by the resulting expansion of vested interests, a re-strengthened American government is required to enforce antitrust laws, increase regulation, improve oversight, limit campaign contributions, limit lobbying impact, close the revolving door and reform the political process (*including a review on the election frequency and thresholds for Filibusters*).

III. CAPITALISM AND FINANCIALIZATION

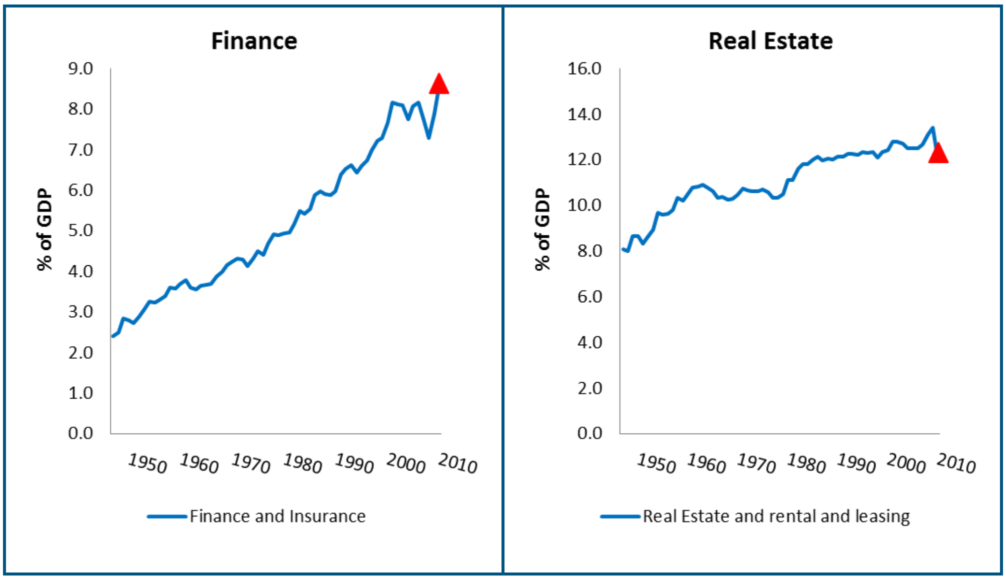
In recent years, the financial powers and connections of Wall Street have become central to discussions of special interest politics. "Finance, Insurance and Real Estate" ranks close to the top of sector rankings in total lobbying outlays spent between 1998-2011 at $4.9 billion.[6] Since the 1980s, a new market-friendly policy doctrine and the financial industry's increasing political clout afforded the step-by-step unwind of New-Deal regulations. Glass-Steagall, which had put in-place the separation of commercial and investment banking, was repealed in steps in 1987, 1989, 1997, and completely repealed in 1999. The Bank Holding Company Act of 1956 that had separated banks and insurance companies was similarly repealed in 1999. However, political inaction has been as important as repealing former regulation in response to dramatic changes in the financial world. A loose policy

[6] Source: Center for Responsible Politics

environment has supported the movement of finance in new experimental directions – increasing the size and scope of markets and strengthening the leverage and hold over the American economy. In this section, the paper discusses the *financialization* of America, a second result of the imbalance between markets and governance, and important adverse implications this has had in driving the present economic instability.

The rise of the American financial industry has been impressive over past few decades. "Finance, Insurance, Real Estate, Rental and Leasing" doubled as a percentage of the economy from about ten percent of GDP in 1947 to just below twenty-one percent by 2010. The increase has been catalyzed by the surge in "Finance and Insurance", including all credit intermediation, securities, insurance and fund management, that quadrupled over the same time period from two percent to almost nine percent of GDP (**Display 6**). In "The Quiet Coup", Simon Johnson notes that "from 1973 to 1985, the financial sector never earned more than 16% of domestic corporate profits. In 1986, that figure reached 19%. In the 1990s, it oscillated between 21% and 30%, higher than it had ever been in the postwar period. This decade, it reached 41%" (Johnson, 2009).

Display 6: The Post-War Rise in Finance and Real Estate
Finance, Insurance, Real Estate, Rental and Leasing, as % of GDP

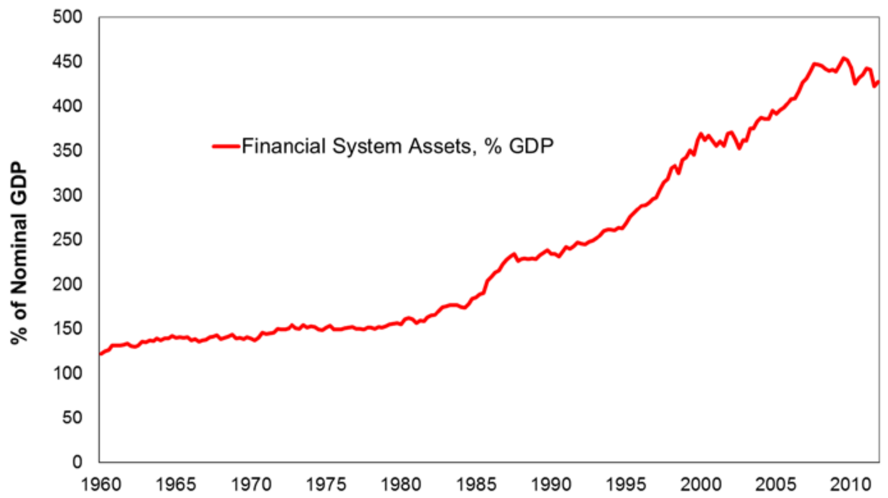


Source: Bureau of Economic Analysis.

With political society still captivated by a faith in efficient, free markets, America's financial industry was given the support to *innovate* and expand without barriers, increasingly facilitating the securitization of a complex range of risks and hard assets on a political principle of capitalism and an ideology of financial deepening. The invention of mutual funds and 401k's increased the reach of stock markets, property loans were packaged and transformed into new mortgage-backed securities, management of formerly intangible risks of default created a vast new market for credit derivatives, an interest in a certain pay-off profile created options and interest rate swaps, a search for ways to track certain return profiles created exchange-traded funds for most every tradable commodity or index. Hedge funds have become more prominent, and highly-levered investment practices have become custom. Investors can today participate in an ever-increasing array of markets formerly non-existent or not securitized for movement by financial actors.

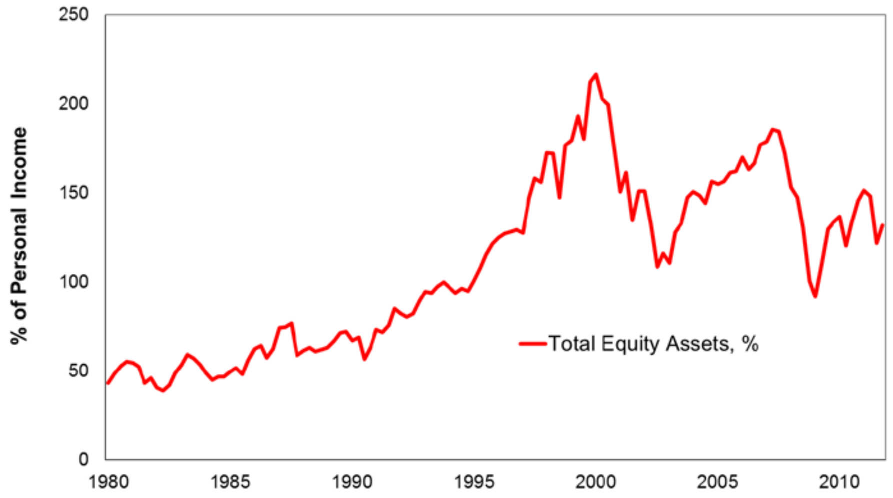
An outcome of the expansion and growing complexity of markets has been the *financialization* of the American economy. On a whole host of measures like the increase in the size of financial institution balance sheets relative to real non-financial activities (**Display 7**), rising exposure of households to equity markets (**Display 8**), rising household ownership of real estate and increasing trading volumes, the sheer scale of activity in the financial economy has increased to a level today that dwarves the activity in the real economy (Turner, 2010). This increasing leverage in the financial economy makes outcomes in financial markets that much more important in how they can affect events in the real economy in the event of any uptick or downturn.

Display 7: Financial System Balance Sheet Has Surged Since 1980
Financial Business Total Assets, % of Nominal GDP



Source: Federal Reserve Board, Bureau of Economic Analysis.

Display 8: Household Exposure to Stock Markets Has Tripled
Total Household Equity Assets, % of Annualized Personal Income



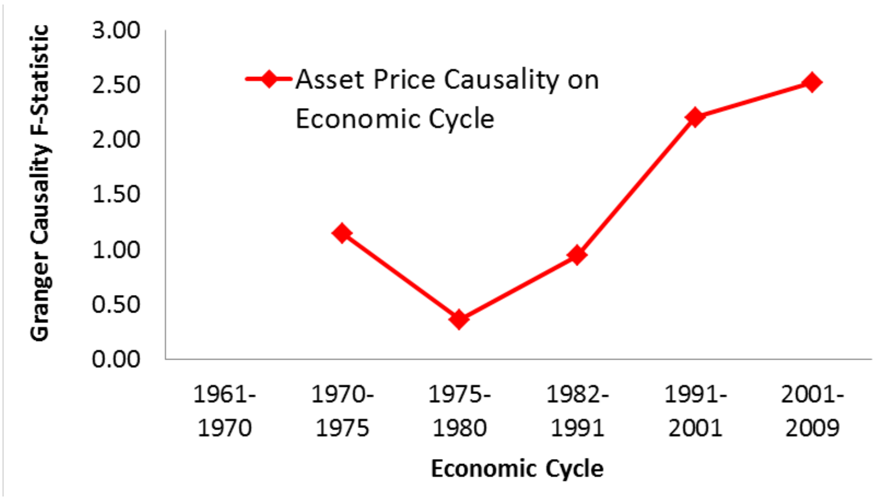
Total Household Equity Investments = Total Directly- and Indirectly-Held Corporate Equity Assets (includes exposure via mutual funds and pension funds).

Source: Federal Reserve Board.

An important consequence of the American financialization has been the growing part that financial asset price cycles (*movements in stocks and housing prices*) play in creating the boom-bust modern economy. In **Display 9**, this paper tests the hypothesis that financialization has established an increasing causal link from asset prices onto the real economy by performing a series of Granger Causality Tests[7] in which quarterly, sequential changes in an weighted asset price index (*that includes both stock prices and housing prices*) try to explain future quarterly, sequential changes in Real GDP. The results shown in Display 9 represent the Granger Causality F-statistics of ten lagged, quarterly observations of movements in asset prices in predicting current sequential changes in Real GDP. The regression controls for ten lagged observations of changes in GDP. To assess the differences from one time period to the next in this relationship, the regression is independently run on six distinct economic cycles: 1961-70, 1970—75, 1975-80, 1982-91, 1991-2001 and 2001-09.

[7] The Granger causality test is a statistical hypothesis test for determining whether one time series forecasts another. A time series X is said to Granger-cause Y if it can be shown through a series of t-tests and F-tests that lagged values of X provide statistically significant information about future values of Y even with lagged values of Y also included in the regression.

Display 9: Asset Prices Increasingly Impact Economic Cycle
Granger Causality (y-axis) of Changes in an Asset Price Index[1] on Changes in Real GDP, all measured in quarter-on-quarter % differences, by economic cycle (x-axis)



[1] Asset Price Index = indexed to 100 in Q1/1968; quarterly changes based on a weighted change in the S&P 500 and NAR Median Sales Price Index: Existing Homes, weighted by previous quarter stocks and real estate %'s of household net worth.

Source: BEA, S&P, REALTOR, AllianceBernstein.

As shown in Display 9, the strength of changes in asset prices in predicting changes in the real economy has increased cycle-after-cycle since the early 1980s. Financial deepening has created an economic environment in which developments in financial markets increasingly drive the evolution of the American macroeconomy. This may be apparent considering recent history: the early 2000s recession was rooted in the dot-com bubble burst, the economic expansion in the mid-2000s was buoyed by rising equity and home prices, and the recession of 2008-09 was the result of a financial collapse.

But if financial markets hold increasing leverage and power over the American economy, the critical question then is whether this increased presence has been positive or negative? As Lord Turner importantly asked in a speech titled "Market Efficiency and Rationality" in 2010, "*how important has financial market liberalization been and what consequences, good or ill, might free financial markets bring with them*?" (Turner, 2010)

From one influential angle, the view of the 'Washington Consensus' points to market liberalization as desirable to foster efficiency and states that truly free markets reward both economy and society, moving both closer to that most efficient possible outcome, most favorable to human welfare (Turner, 2010). And under this view, it is clear that an increase in the size and scope of capital markets must improve the functioning of the economy, propelling an overall increase in growth and prosperity and thus, an increase too in social wellbeing.

But the problem is that the evidence does not support the theory. As shown in **Display 10**, a post-1980 financialization and extension of Washington Consensus ideas had indeed changed the economic landscape in America: by 1996-2011, America exhibited record low marginal tax rates, close to record low inflation and interest rates, and a highly deregulated and powerful financial system. But this new American economy did not improve prosperity for the average citizen: instead, economic growth declined, as did per capita GDP growth. Unemployment stayed high, and the incomes of the bottom 99% stagnated since the 1970s around $40,000. Inequality sky-rocked as the incomes of the top 1%, notably those in the financial sector, surged. Easy credit increased household debt and the percentage of Americans very satisfied with their lives peaked in 1973 and has plateaued since. At best, the financialization of America has shown inconclusive signs of economic benefit, except perhaps for a limited few, but significant signs of economic cost. And to support these conclusions based on experiences abroad: a 2011 study by Oscar Jorda, Moritz Shularick and Alan Taylor likewise found little empirical support for the theory that market liberalization and financialization deliver an increase in net economic activity after a wider study of 140 years of economic history in 14 developed nations (Jorda, Shularick and Taylor, 2011).

Display 10: Limited Signs that Financialization Has Benefited Economy
US Economic Summary Statistics, 1951 – 2011

	1951 - 1970	1971 - 1980	1981 - 1995	1996 – 2011
Top Marginal Tax Rate	84%	70%	40%	34%
Financial Deregulation	No	No	Yes	Yes
Consumer Price Inflation Rate	2.4%	8.0%	4.0%	2.4%
Interest Rates, 10-year Treasury, %	4.3%	7.9%	9.2%	4.6%
Financial System Assets, % GDP	129%	152%	220%	384%
Household Equity, % Personal Income	91%	65%	69%	151%
Household Real Estate, % Income	110%	109%	131%	152%
Annual Financial Sector Growth	4.4%	4.8%	4.0%	2.1%
Annual Real GDP Growth	3.8%	3.2%	3.0%	2.4%
Annual Real GDP per Capita Growth	2.3%	2.1%	1.9%	1.5%
Unemployment Rate, %	4.6%	6.4%	6.9%	5.8%
Bottom 99% Avg Income, 2010 $'s	$30,240	$39,050	$38,729	$43,234
Top 1% Avg Income, 2010 $'s	$281,793	$333,196	$483,001	$835,570
Top 1% Total Income Share	10.5%	9.3%	13.4%	19.7%
Budget Balance, % GDP	-0.8%	-2.0%	-4.0%	-3.2%
Household Debt, % Personal Income	51%	57%	69%	99%
Americans 'Very Happy' With Life, %	N/A	34.9%	33.4%	33.3%
Financial Crises, # of	0	0	0	2
Other Recessions, # of	4	2	2	0

Source: Jeffrey Sachs, "The Price of Civilization", Bureau of Labor Statistics, Federal Reserve Board, Bureau of Economic Analysis, General Social Survey, NBER, Piketty and Saez, Office of Management and Budget.

Instead, the financialization of America has brought with it the advent of two financial crashes in this first decade of the 21st century, the most recent of which brought the deepest recession since the Great Depression. On the 2008 crisis, Simon Johnson writes: "elite business interests—financiers, in the case of the U.S.—played a central role in creating the crisis, making ever-larger gambles, with the implicit backing of the government, until the inevitable collapse" (Johnson, 2009).

This irrationality, susceptibility to excess and boom-bust behavior of financial markets (*and any macroeconomy overly dependent on them*) has however been known for some time. John Maynard Keynes, in "The General Theory", wrote that liquid financial markets do not ensure the attainment of a rational competitive equilibrium, but are instead subject to herd/momentum effects (Keynes, 1936). In truth, a fundamental reason why financial markets cannot be purely efficient is because human decision-making cannot be seen as a purely rational process (Turner, 2010). If people were truly mechanical, rational, all-informed and efficient in individual decisions, then markets too could be efficient and in perpetual equilibrium. But, people are not the pure rational decision-makers of efficient market theory – instead, people are emotional, social creatures, prone to sudden impulses to buy or sell based on nothing more than scarce impression and prone to joining the pack if a certain market trend is in vogue. And just as people tend to weight the short-term above the long-term, often assigning questionably high discount rates to future events, markets similarly are held back by the very same shortsightedness that undermines its own ability to self-regulate long-term stability, and which creates the iconic boom-bust swings. As George Akerlof and Robert Shiller explain in "Animal Spirits", human psychology drives the economy, not rational expectations (Akerlof and Shiller, 2009). Due to markets' inability to self-govern, improvement in government oversight is required in an age of financialization to protect the real economy from the violent downturns in market sentiment that drive the inevitable bust.

Once an economy is financialized, it becomes difficult to 'de-financialize'. Instead, policymakers must increase government oversight and support stability in the marketplace via adoption of corrective regulations like a "Tobin tax" on financial transactions. By increasing the cost for short-term transactions and impeding market liquidity, the tax enforces a longer-term view on investments, internalizing a cost for speculation, slowing momentum waves and allowing markets more time to self-correct.

An additional corrective option is to reform monetary policy to target movements in asset prices. When former Federal Reserve Chairman Alan Greenspan coined the phrase "irrational exuberance" in 1996, he questioned whether controls on equities, real estate and other earning asset prices were required (Carson, 2009). In 2009, Joseph Carson, Chief Economist of Alliance Bernstein, concluded that the construction of a broad price index is critical to reform monetary policy to target asset prices. By basing policy rates on such a broad price index, policymakers would elevate interest rates in asset price boom periods, enhancing a proactive policy response and dampening credit bubbles such as to correct market misbehavior. Carson explains: "policymakers would be able to use this index to help distinguish between relative and absolute price movements, while also linking broad price increases to money and credit expansion. Imbalances would be detected through large, persistent increases in the broad price index which are not attributable to any temporary or special factors and exhibit changes well above the historical average" (Carson, 2009).

The inherent 'irrational exuberance' of financial markets and imbalances imposed on the American economy require concerted reform such as an improvement in government oversight/regulation, Tobin tax to internalize the cost of speculation, and reform to monetary policy to respond to changing realities.

IV. CONCLUSION

Lord Turner, of the UK Financial Services Authority, said in a 2010 address at the London School of Economics that "*an assessment of the effectiveness of markets in driving economic efficiency and growth needs to be based on good economic history – on the open-minded analysis of a complex and* *varied set of historical experiences, not on a theoretical assumption that markets deliver efficiency because general equilibrium theory tells us that they should*" (Turner, 2010). In this paper, I outlined counter-examples in the political inequality and economic instability that have instead resulted from the adoption of neoliberal principles since the 1980s, which have ignored necessary oversight and proper policies to give direction to a political economy and govern right from wrong. Though markets will always be a critical element to any successful American political and economic model, the argument is that too much of one thing can have adverse effects – that all things are good in moderation. In "The Price of Civilization", Jeffrey Sachs importantly articulates the need to return to a properly balanced, mixed economy as the true bedrock to American success.

America stands today at a unique point in its history, one in which the challenges both domestically and internationally are greater than ever before. To confront these challenges, America needs a re-vitalized government – one that again represents the strength and vision of the nation's past. To begin, it is critical that America resolve its dominant imbalance between markets and government. The country should encourage enforcement of antitrust laws, increase financial regulation, improve oversight, raise taxes on corporations and financial transactions, limit campaign contributions, improve consumer protection, limit lobbying impact, enhance monetary policy and reform the political process. Only by resolving the imbalance of capitalism and government can the people reinstitute the nation that represents the freedom, equality, prosperity and compassion that is America at its best.

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