

FROM THE “BATTLE OF THE SEXES”¹ TO THE “END OF HISTORY AND THE LAST MAN”²: AN ALTERNATIVE ANALYSIS OF THE CURRENT GLOBAL ECONOMIC CRISIS

ABSTRACT

The paper points out that throughout economic history the international economy faced numerous crises due to various events (war, epidemics, physical catastrophes etc). However in spite of various crises the international economy has been able to grow and transform from feudal to commercial, capitalism, industrial capitalism and finally post-industrial capitalism, thus justifying the Schumpeterian assertion which pointed out that capitalism is the system which can re-birth from its ashes. We argue that this dynamic process was based on five principles: 1) a gradual establishment of a state apparatus and bureaucracy which promoted growth, 2) a constantly evolving human capital via education and training, 3) a leadership which promoted science and arts, 4) ethics based on Christian values which focused on human values and triggered the rise of a humanistic society, 5) Random external shock events with positive or negative economic ramifications.

However the current crisis is totally different from those of the past since the West marginalized the above five principles and endorsed a technology / information driven growth model which is associated with quick decision making (thus high risk of error), absence of ethics (thus marginalization of human cohesion and solidarity) and a shift from the real sphere of the economy to the financial sphere creating immense private and state debts. This ongoing process is so destructive that affects even nature / biological issues. We argue that the deeper in-tacit factors are associated with the crisis thus making the current period totally different.

Key words: Social sciences, economic history, political economy

1. Introduction

The intellectual aspiration of the current paper is to provide an alternative analysis about the real causes of the current global economic crisis. Conventional economic theory points out that the current economic crisis is associated with the following phenomena:

1. An immense over expansion of financial institutions and immense exposure to high risk financial products,
2. An immense expansion of both private and public debts across all western economies,
3. A demographic decline across the western world which creates immense pressures to all welfare state pension and benefits systems,
4. An asset bubble which is associated with high price levels in the stock-markets, housing markets and certain commodity markets.³

¹ This is an old black and white comedy of the British cinema with Peter Sellers, Robert Morley and Constance Cummings released in 1959.

² A well written book by Francis Fukuyama published in 1992 by Free Press in the USA.

³ For the first point see: Anat Admati & Martin Hellwig: “The Bankers new clothes What is wrong with Banking and what to do about it”, Princeton University Press, 2013. The criticism is associated with “bad loans” which the banks have made to private individuals, special groups of people, enterprises or even states. It is also essential to point out the limited reserves which banks hold in their portfolios. For the second point see: Carmen M. Reinhart & Kenneth S. Rogoff: “This time is different Eight centuries of financial folly”, Princeton University Press, 2009. The main argument is that

43 All the above arguments mirror the arguments of the official US report about the
44 crisis. According to the official report the crisis occurred due to the nexus of the
45 following elements: “1) massive amount of toxic products in the market, 2) failure of
46 financial regulations or excess deregulation, 3) highly risky [and even opportunistic]
47 behavior of the financial players, 4) excessive borrowing, risky investments and lack
48 of transparency, 5) ill preparation of government to respond to the crisis, 6) collapse
49 of mortgage lending standards, 7) OTC derivatives harmful effect, failure of credit
50 rating agencies to assess correctly financial institutions clients and products”.⁴
51 However for the purpose of the current intellectual exercise the US report
52 acknowledges as an additional factor which triggered the crisis: “a systemic
53 breakdown in accountability and ethics”. The report states that: “we witnessed an
54 erosion of standards of responsibility and ethics...this was not universal, but these
55 breaches stressed from the ground level to the corporate suits [i.e. managers]...as a
56 nation we must accept responsibility for what we permitted to occur.
57 Collectively ...we acquiesced to or embraced a system, a set of policies and actions,
58 that gave rise to our present predicament”.⁵

59 The structure of the paper is as follows: In the first section we provide the theoretical
60 background which attempts to answer the question: “Which factors triggered
61 economic growth and prosperity during the 1500-1975 period?”. In order to answer
62 the question we construct a theoretical model using elements from economic theory,
63 economic and business history, philosophy, political economy, international relations
64 and history, history of economic thought, history of science and biology. We argue
65 that the growth (and transformation) of the capitalist system during the 1500-1975
66 period was based on five pillars: 1) The state apparatus, 2) The human capital, 3) The
67 leadership, 4) The Christian ethics, 5) The random events (positive or negative).
68 These five factors do not necessarily overlap during the period across states; however
69 it was the interaction of these elements which made capitalism successful.

70 The second section focuses on the developments of the 1980-2015 period and
71 demonstrate how capitalism changed when compared with the previous periods. This
72 section demonstrates that the current period is the most fragile in the so-called
73 developed world. The section points out that the current capitalistic system has no

historical experience teaches us that public debts which exceeded the level of 80% of GDP are practically making the state insolvent. However there were cases where lower public debts have also made countries default practically when debt levels “are above 30-35% of GNP risks of credit event start to increase significantly” (page 25). The other essential indicator is the ratio of external debt to exports. This varies from 98.6% to 447.3% which will again lead to default (thus in this case we have a mean of 272.95%) (page 23). According to a different source in 2012 if public and private debts are added the overall debt figures (as % of GDP) for developed western states were Japan: 512%, Britain: 507%, France: 346%, Italy: 314%, USA: 279%, Germany: 278%; these figures “have no precedent in history”. See: Niall Ferguson: “The Great Degeneration”, Allen Lane, 2012, page 40. For the third point see the OECD publication entitled: “Social spending during the crisis”, where it is pointed out that social spending increased in OECD states from 15% of GDP in 1970 to 30% by 2010 partially due to higher levels of ageing population. The “social spending” term adds 1) unemployment benefits, 2) pensions, 3) housing benefits, 4) family benefits, 5) health benefits. On the course of a generation OECD projects that health care public spending will increase from 7% of GNP to 13% from 2009 to 2050 on average across the OECD due to ageing population. For the fourth point see: Panos Panayiotou: “Markets Tango”, Livanis editions, Athens 2012 (in Greek). The author points out that an asset bubble mainly in the stock-market and in the housing market was the prelude to the economic crisis which was triggered by the high levels of public debt and the high deficits in the budget and the balance of trade.

⁴ See: “The Financial Crisis Inquiry Report. Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States”, Authorized edition, January 2011.

⁵ See: “The Financial Crisis Inquiry Report. Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States”, Authorized edition, January 2011, p. xxiii.

resemblance to that of the past. Thus attempting to resolve the current crisis with policies and doctrines of the past is totally wrong. The conclusions of the paper follow.

2. Theoretical Framework: The forces of growth in the 1500-1975 period and the rise of Capitalism and the West.

The transformation of the economic system from the feudal societies to mercantilism, commercial capitalism and industrial capitalism has been associated according to the thinkers of the past with the Renaissance and the Enlightenment-Reformation processes. This economic transformation can be regarded successful since living standards and life expectancy increased in spite of the immense calamities of the 1500-1975 era. The capitalist system proved its ability to regenerate from its ashes thus the Schumpeterian assertion of a capitalist system which has a creative destruction character seemed correct.⁶ Thus in a period of 475 years humans were able to overcome 1,187 catastrophes (138 epidemic diseases, 107 famines, 119 wars, 442 fires, 306 earthquakes, 75 floods). Turning to economic shocks during the same period the world suffered 198 state defaults due to internal or external debt, 223 banking crises and 10 major stock market bubble crises, a total sum of 431 economic crises.⁷ Adding all types of catastrophes and calamities in a period of 475 years we have 1,618 cases or 3.40 cases per year. In spite of the negative political, social, economic environment; progress occurred. Both human population and the life expectancy increased; in addition to this, living standards and per capita income increased as well. There were five causes for the Western ascendancy during the 1500-1975 period:

2.1. The establishment of an efficient nation state apparatus

The Western medieval principalities and city states transformed to nation states both in continental Europe Holy Roman Empire of the German nation, France, Holland, Spain, Portugal (even Poland for a period of time before been reduced to provinces between Prussia, Russia and Austria) as well as in England. The state formation per se was a major development and departure from the old medieval tradition of local small kingdoms; however it was the establishment of an efficient state apparatus which interests as at this stage. This efficient state bureaucracy is depicted by the application

⁶ For the positive economic transformation of the era see: 1) Shepard Bancroft Clough and Charles Woolsey Cole: "Economic History of Europe", Heath & Co. 1952, 2) James Foreman-Peck: "A History of the World Economy", Pearson 1995, 3) Rondo Cameron: "A Concise Economic History of the World", Oxford 1997, 4) Thomas McCraw (ed.): "Creating Modern Capitalism", Harvard 1997. With the term "calamities" we refer to the immense intensity of conflicts and wars which occurred during the era. To illustrate between 1495 to 1975 there have been registered 119 major war conflicts. See: Jack S. Levy: "War in the Modern Great Power System 1495-1975", University Press of Kentucky, 1983, pp: 70-73. The term also refers to the great epidemics and the famines of the period. To illustrate during the 1500-1975 period 138 epidemics have been registered (and the list is incomplete) and also 107 famines have been recorded (and again the list is incomplete). Adding the three elements of destruction (wars-epidemics-famines) we have a total of 364 cases. To this we add the number of floods, earthquakes and fires. The deadliest floods were 75, the deadliest fires were 442 town city and major buildings fires, and there were 306 earthquakes. See: <http://en.wikipedia.org> for lists. **For the Schumpeterian assertion, see: Ernesto Screpanti & Stefano Zamagni: "An Outline of the History of Economic Thought", Clarendon Press, Oxford, 2001, pages 243-247.**

⁷ See: 1) Carmen M. Reinhart & Kenneth S. Rogoff: "This time is different Eight centuries of financial folly", Princeton University Press, 2009, pages 68-127 and 344-392, 2) I.D. Salavrakos: "Political Economy, Theories of the State and Economic Crisis", International Journal of Business and Social Science, Volume 3, No. 20, 2012, Special Issue October, pp.: 79-98.

106 of the Square of Power Model as an explanatory framework for human action. The
107 Square of Power model is demonstrated in Figure 1.

108 **Figure 1: The Square of Power Model**



121 **Source:** Niall Ferguson: "The Cash Nexus Money and Power in the Modern World 1700-2000",
122 Penguin, 2002, page 16.

123

124 **Bureaucracy-Tax Authorities:** Any attempt to promote economic development has a
125 fiscal dimension. Low taxes is a major precondition in order to attract FDI inflows.
126 However it is not just the stable tax regime. The state apparatus has to be helpful to
127 the entrepreneurs and provide quick and efficient solutions to any problems. If taxes
128 are high or unjust then heavy taxation will create social unrest and eventually, the
129 government will be forced to modify its fiscal policy.

130

131 **National Debt/ Money Markets:** The second pillar of development is associated
132 with the level of national debt. Low debt as already pointed out is associated with low
133 default risk and this is very attractive for the banking institutions which operate in a
134 specific economy. Furthermore, low debt allows the state to finance various
135 productive tacit or in-tacit activities (infrastructure projects, investments in education,
136 health, research etc). Low debt is associated with low interest rate payments on
137 public debt as well.

138

139 **Money Supply-Central Banks:** The third essential pillar is the level of money
140 supply. The most elementary macroeconomic theory points out that $MV=PY$, where
141 money supply is directly associated with the level of prices (inflation) in the economy.
142 The lower the rate of inflation, the higher the satisfaction, across social classes in the
143 economy; especially to the most vulnerable ones.

144

145 **Institutions and Parliament:** The fourth invisible force which will determine
146 economic development is associated with institutions. There are two dimensions here.
147 The first is the quality of civil-social relations. If the state apparatus is not helpful to
148 the general public then sooner or later social tensions will emerge and this will have a
149 negative effect on growth.

150 The role of the Parliament is also crucial. In a parliamentary democracy various
151 political parties will win elections and rule for a certain period of time. Obviously all
152 political parties have voters (supporters) which belong to certain social classes; and
153 social classes have conflicting interests. The main task of the Parliament is to legislate
154 and the crucial question according to the NIE paradigm is if the parliamentary
155 majority will legislate in order to support exclusively the interests of its own voters or
156 if the legislation will try to compromise conflicting social interests. In the first case,

when the interests only of the voters of the specific party which won the election are satisfied, class struggle will increase since the interests of other social classes are marginalised. In this case social instability (violence, strikes, demonstrations etc.) will certainly decrease the growth rate of the economy and will also have a harmful effect on the morale of the population and on social solidarity.

However if the opposite occurs (i.e. a social compromise via the legislation) then all social classes will be satisfied. This will create a stable social environment which will promote economic growth and the morale for common sacrifices in case of crisis. A typical example of social compromise from economic history is provided by the case of the Second German Reich (1871-1918). German capitalism was based on a social compromise. The landowners (Junkers) needed the termination of cheap Russian wheat imports, in order to achieve high prices for agricultural products. The industrialists opposed the idea, since higher prices for food would mean higher salaries for industrial workers. The syndicates objected to the idea as well. However eventually the state decided to terminate Russian cheap imports; however in exchange of higher food prices the landowners accepted the development of a big German navy (a move associated with huge demand for iron and steel, thus high profits for the heavy industry). In exchange of the higher food prices, the labour movement was compensated with the creation of a welfare state (free health and education for the working class). Under this social compromise model Germany flourished. Thus when war erupted all social classes supported the war effort.⁸

It goes without saying that for many centuries the western states were not democracies. They were either absolute monarchies or in the late nineteenth century some were constitutional monarchies or democracies. In the twentieth century many states were briefly totalitarian (Fascist Italy, Spain, Nazi Germany). So obviously there is an institutional transformation but what is essential here is that institutions in general had assisted economic development, promoted trade, insurance, property rights and wealth creation.⁹ The history of institutional evolution is a very complex

⁸ For the rise of German capitalism see: 1) A.D. Chandler Jr.: "Scale and Scope The Dynamics of Industrial Capitalism", Harvard University Press, 1990, pages: 399-400, 425, 2) R. Chickering: "Imperial Germany and the Great War 1914-1918" Cambridge, 1998, page 2, 3) P. Watson: "The German Genius", Simon & Schuster 2010, pages 340-397 (with the nexus between sciences and economics), 4) J. Fear: "German Capitalism", in the volume: Th. K. McCraw (ed.): "Creating Modern Capitalism", Harvard University Press, 1997, pages: 135-184 and especially pages 141-152. See also: 5) K.D. Barkin: "The Controversy of German industrialization, 1890-1902", University of Chicago Press, 1970. Finally see: S. Halperin: "War and Social Change in modern Europe", Cambridge 2004, pages 148-149 where there is an excellent analysis of the class struggle inside Germany and the ramifications that this struggle had on Germany's economic relations.

⁹ See for example: N. Kyriazis & M. Zouboulakis: "The economics of sea power: Property rights arrangements and institutional change in Elizabethan England", Social Sciences Tribune, Vol. 37, 2003, pp: 77-96. However it was not just England and Holland which built an "economic friendly state apparatus". The Prussian kingdom was also a pioneer in creating an efficient administration which promoted economic development. See: Francis Fukuyama: "Political order and Political decay", Profile books, 2014, pp: 66-80. Turning to the US case the institutional evolution is rather complex. Initially the US system was similar to that of England following the English common law. According to Hughes & Cain (1998): "The English common law... was developed in the age of mercantilism, when economic life, was regulated in the interest of the nation state. When mercantilism was superseded ...the emphasis shifted towards laissez faire governmental non-involvement in the private economy. Yet the involvement persisted; the US Constitution adopted the common law...the federal constitution was an agreement among the states about power: how much should be lodged in a single place and how much might be reserved to those entering into the agreement. We see decades of adjustments of power in subsequent court decisions, in new state constitutions and in private law...the Americans, by written agreement, legislation and judicial interpretation had to discover a way to live in

process but for the current paper we have to address a fundamental question: “When nations and societies obey laws?” The Ancient Greeks were the first who posed this essential question and attempt to provide an answer. Laws are made by human in certain geographical space, certain historical time and they reflect the beliefs (or in some cases the interests) of the legislator. What happens when these beliefs are not shared by the society or by other classes or individuals? Furthermore what happens when “human-made laws” contradict the “Law of God” (which can be understood – broadly speaking-as general common sense or common ethics). If there is a conflict between the “Law of God” as this is expressed by standard ethics and the “human-made law”, it is the “Law of God” which has to be followed, this assertion was extremely strong for centuries in the western societies and this point will be further addressed later.¹⁰

2.2. The human element: The crucial factor of economic development

Practically the NIE theory points out that the human factor is the crucial element of success. The qualities of human factor are associated with two dimensions: the former is associated with ethos the ability of the individual to suppress personal goals and aspirations to broader social interests, i.e. the absence of personal opportunistic behaviour. The epitomy of this ethical behaviour is best captured by the Weberian thesis of personal sacrifice for the interest of the children. Thus in Weber’s rationale high propensity of savings is associated with the desire of the individual to provide to the next generation the financial means to enjoy a higher living standard and also enjoy better access to education health etc. Hard work and modesty are essential elements in the approach which emphasises the altruistic bonds across generations.¹¹

The second essential dimension of the human factor is the nexus between human innovation and culture. Innovation is the ability to create constantly new methods of production which will lead to better quality as well as cheaper products. Innovation however is also associated with higher productivity new production techniques etc. Hofstede (1991: 5) also gives his own conception of culture as “the collective programming of the mind that distinguishes the members of one group or category of people from another”. One must note that although the term “culture” can apply to nations, organisations, occupations and other groups, it is generally agreed that the influence of culture is most clearly recognisable at the national level.

Different authors may have different views on culture, but few of them can deny that culture is an important force determining people’s attitudes and behaviours. Employees’ understanding of work, their approach to it, and their perceptions towards

peace among themselves during a period of massive economic and geographic expansion...”. See: Jonathan Hughes & Luis P. Cain: “American Economic History”, Addison-Wesley, 1998, pages 36-37 and 84. The evolution of US institutions reflect the debate of ideas between Benjamin Franklin (1706-1790), Alexander Hamilton (1755-1804), Henry Clay (1777-1852), the Irish rebel leader Mathew Carey (1760-1839) and his son Henry Carey (1793-1879) on the one hand against the ideas of Adam Smith (1723-1790), Thomas Hobbes (1588-1679), John Locke (1632-1704), David Hume (1711-1776) and Francis Bacon (1561-1626) on the other.

¹⁰ This is practically the message of the ancient Greek tragedies Antigone of Sophocles (c. 497/496-406/405 B.C.) and Ifigeneia in Aulis written by Euripidis (480-406 B.C.). In the former Antigone does not accept the will of Creon to leave Polyneicus unburied pointing out that the Law of the Gods is to honour the dead, she warns that this is hubris which will result in nemesis (=punishment). In the second case that of Ifigeneia in Aulis the king Agamemnon has to sacrifice his daughter (Ifigeneia) in order to satisfy the Gods and calm the seas for the Greek fleet to pass the Aegean. Ifigeneia accepts the will of the Gods and is sacrificed for the common good. See: Sir B. Markezinis: “The heritage of Ancient Greek tragedy to European Civilization”, Sideris editions, Athens, 2013, pages 222-223.

¹¹ See: Max Weber: “The Protestant Ethics and the Spirit of Capitalism”, Greek edition, 2010.

motivational practices are factors most directly influenced by the values and norms of their nations. Although one may argue that national specific factors can prompt an employer to adopt a particular management practice, its acceptance and effectiveness appears to depend upon its congruency with cultural factors (Raghuram *et al.*, 2001). In other words, the cultural difference amongst nations is one reason to explain why management practices vary across borders. This leads many researchers to argue that it is important and necessary for managers to understand the local cultures of where their operations are located, and adapt their management practices to the local environment [e.g. Ryan *et al.*, (1999)].

Among all cross-cultural literature, perhaps the most often-cited and the most widely accepted one is Hofstede's (1980, 1991) five dimensions of culture. Hofstede's main finding is that national cultures can be compared along five dimensions that are largely independent of each other, namely: Power Distance, Uncertainty Avoidance, Individualism versus Collectivism, Masculinity versus Femininity, and Long-term versus Short-term Orientation (Hofstede, 1991). Power Distance is a cultural trait which defines the inequality across social classes and the degree / level which the society accepts this inequality as normal. The Uncertainty Avoidance characteristic demonstrates the level of risk-averse of a society. It demonstrates to what extent individuals take risks how they face unpredictable situations etc. The third trait, Individualism versus Collectivism, demonstrate cultures where the individual is the epicenter of activity, action and responsibility, viz. a. viz. societies which perceive collective activity as essential. The fourth element (role of sexes) is associated with certain social roles for men and women, which have economic ramifications. Thus in the traditional societies women are not part of the labour force. Their role is mainly focused in domestic in house activities as housewives. In these societies men compose the greater part of the labour force. Other traits occur in less masculine cultures where the role of women is greater. The final dimension is Long-term versus Short-term Orientation. This dimension relates to people's view towards time. In cultures with long-term orientation, people usually spend a lot of time in considering all aspects in detail before making a decision. In short-term orientated cultures however, people usually make quick decisions and expect rapid responses. In this dimension, one set of values (the positive pole) are oriented towards the future, like thrift and perseverance. On the negative side, values are oriented to the past and present, like respect for tradition and fulfilling social obligations.

Hofstede's (1980) dimensions of national cultures have been widely seen as one of the most comprehensive pieces of research in the field of cross-cultural management. It is also useful as an instrument for analysing national cultural differences and for considering the effects of cultural differences on management and organisations (Hoecklin, 1996). His work has been praised to have appealing attributes involving the size of the sample, the codification of cultural traits along a numerical index, and its emphasis on attitudes in the workplace (Raghuram *et al.*, 2001). However, it also received criticism. Most of the criticism focuses on the inherent limitations in the use of models examining social and workplace attitudes across cultures. These limitations mainly take the form of construct stability and validity regarding the underlying dimensions of national culture (Jaeger, 1986). Fernandez *et al.* (1997) repeated Hofstede's (1980) study in nine countries and found that environmental changes caused the dimension of national culture to shift over time.

Hofstede (1980) believes that cultural values and cultural differences between countries are formed through a long history and therefore are stable. Subsequent researches have confirmed his conclusion [Barkema and Vermeulen (1997)]. National

culture is essential for business. As Child & Faulkner (1998:233) point out: “National cultural differences can present barriers to cooperation both at the level of simple misunderstanding and at the more fundamental level of conflicts in values”.

To summarize our theoretical argument high quality human capital is the precondition of economic development. This high quality in-tacit capital is the nexus of two elements ethos and absence of opportunistic behaviour and culture which endorses innovation and simultaneously acknowledges tradition has a long-term horizon strategy, accepts risks, promotes collective action.

The above forces however are the driving forces of growth if their character is repetitive. In other words as generations pass through history the human capital (human action) can generate growth only if generations follow a certain behavioural pattern. Assume that one generation is the generation of savers. This creates wealth which is inherited by their heirs. However the next generation is the generation of consumers, they do not save but they spent and they also borrow in order to finance additional current consumption. If this occurs an economy with surpluses after certain decades will be an economy of debts. This is exactly what happened to the Western economies

At this point we have to introduce the arguments of Oswald Spengler (1922) as well. Spengler was a German philosopher who started writing his monumental work “The Decay of the West” (Der Untergang des Abendlandes) during the First World War. His work was published immediately after the war and had immense impact across the world. Some of his ideas nowadays can be regarded as racial for example he specifically mentions that economic growth is associated with certain human races and not with others; however from his ideas we carefully select certain assertions: in both Capitalism as well as Marxism (i.e. western economies versus central planning) the human economic activity is associated with the division of labor. In other words every individual performs one specific task according to its ability. However Spengler endorses the Faustian version of the multi-talented individual. The notion that every individual is performing only one task is in the long term catastrophic. The second essential idea is the quantitative orientation of the systems. Both capitalism and Marxism emphasize on numbers. For the capitalists, are the profits, which have to constantly increase. For the Marxists it is the production volumes which have to increase. However humans have not just material needs like portions of food, numbers of houses etc. Humans are souls and there is nothing in both of the systems which promotes the psychological satisfaction of the individuals; furthermore the economic systems do not create a balance between economic activity and physical environment. Industrial revolution either through market forces or through central planning constantly expands at the expense of the environment and this is eventually harmful for the human kind. Thus according to Spengler the exclusively materialistic orientation of the economic systems of the twentieth century in the long term will trigger self-destructive forces for the human race. The economy of the industrial revolution was out of touch from the spiritual forces of Renaissance and those of the Enlightenment. Their path was already catastrophic. The materialistic obsession is associated with all types of evil from wars to personal misery.

2.3. Leadership

The issue of leadership had been analyzed by various academics across time.¹² For the purpose of the current paper we point out that leaders have the following traits: 1) They exhibit a high level effort, 2) They are willing to take responsibilities, 3) They have a high level of honesty and integrity, 4) They have self confidence, 5) They have a high degree of knowledge and 6) They have high intelligence. Furthermore they can be grouped in three types according to their style; i.e. leaders can be “autocratic” if they emphasize in central authority and command and tend to make unilateral decisions; they are “democratic” if they take decisions after debate and consultation and finally, they can be “laissez-faire style” leaders. In this case they provide freedom of action to their subordinates and they simply intervene in order to modify or improve the choices which their subordinates made. It goes without saying that during the period of consideration the planet had seen various types of leaders from brutal dictators like Adolph Hitler (1889-1945), Francisco Franco (1892-1975) and Josef Stalin (1878-1953), to great monarchs of Enlightenment like Friedrich the Great of Prussia (1712-1786), Peter the Great of Russia (1672-1725), Catherine the Great of Russia (1729-1796), Louis the Great (XIV) of France (1693-1715); and finally great democratic leaders like Abraham Lincoln (1809-1865), Franklin Delano Roosevelt (1882-1945), John Fitzgerald Kennedy (1917-1963). The complete list of leaders would have been extremely long and tedious however the point that we want to make here is that its leader left his or hers legacy in history either as a stain or as a jewel. However most leaders have promoted arts, sciences, economic growth, equal rights and tolerance. The process was certainly slow and in many cases painful, however it was towards the right direction in most cases.

2.4. Religion, Church and Christian ethics.

The role of religion has been extremely debatable in shaping European (if not global) political, cultural and economic history. The Christian church –initially united- was divided between the Eastern Orthodox Church and the Western Catholic church in 1054 A.D. After this division the antagonism between the two churches increased constantly and was maximized during the era of the Crusades when the Catholic armies during the Fourth Crusade (1201-1204) entered victoriously into Constantinople. Later the Catholic church it self suffered an internal schism during the era of the Reformation (1517-1521) inspired by Martin Luther (1483-1546). The schism inside the Catholic Church was partially the outcome of the Inquisition institutions which the Catholic Church had established from the 1230 onwards. Its documented that the evolution of Christianity triggered immense religious wars not only between Orthodox and Catholics but also between Catholics and Protestants. However Christian ethics played an important role in the economic transformation of Europe during the period of medieval feudal society to commercial capitalism and eventually industrial capitalism. The basic corpus of the Catholic Church has been summarized in *Summa Theologica* (written between 1265 and 1274) by Thomas Aquinas (1225-1274) where it is pointed out that the man becomes happy following moral principles, and the laws of God. The Church constantly pointed out that poverty was not an acceptable social trait and the gap between the rich and the poor should be decreased if not totally perished. The Church also emphasized that the well off had to invest in arts and thus increase the cultural standards of societies. During the early era of industrial revolution, as the social gap between the working class and the capitalists

¹² For an excellent overview of the various theories see: Stephen P. Robbins & Mary Coulter: “Management”, Prentice Hall, 2002, pp: 456-493.

(industrialists and merchants) was high, immense social revolutions erupted in 1848-1849 across Europe demanding the abolition of absolute monarchies, the redistribution of wealth between poor and rich as well as civil rights and liberties. As a response to the revolutions of the era the Catholic Church under Pope Leo XIII passed on May 15th 1891 the “Rerum Novarum” text (=Rights and Duties of Capital and Labor). In there the Catholic Church pointed out that the rich have to pay fair wages to the workers, respect them and improve the working conditions and on the other hand the working classes have to abstain from vandalisms, and other forms of violence. Thus the “Rerum Novarum” has been an attempt to stabilize the societies of Western Europe and bring harmony and peace. Under this setting the role of the state was going also to change from the state which exclusively promoted business to a state which was also supportive to lower classes by providing free education and health services for the population.¹³

2.5. Random Events (Positive or negative)

The random events played always a positive or a negative role in economic history. We have already identified 1,618 negative events for the period 1500-1975 period. The negative random events are associated with natural catastrophes, epidemics, wars etc. On the other hand the positive events are associated with discoveries and inventions. The former are associated with existing but unknown conditions in nature (like the discovery of America) whereas the latter are associated with non existent but artificially created conditions (like chemical reactions). Throughout this period the most positive random event was the expansion and exploration of mankind in Africa, Asia, Oceania and America. The expansion to these continents increased access to natural resources, allowed cultural exchanges between the local populations and the European settlers, forced innovation in navigation and travel, and forced communication changes. Thus although imperialism and colonialism were initially damaging (since they triggered Great Powers rivalry, colonial wars and racism via slavery) in the long run they had also positive ramifications for globalization and the international economic system.¹⁴

3. From the “Battle of the Sexes” to the “End of History and the Last Man”

Having sketched the framework of capitalist rise and transformation let us now turn our attention to the movie “The Battle of the Sexes”. This classic British old black and white comedy film depicts the situation of a traditional society (Scotland) which is male dominated and practically functions with traditional family firms (Unitary-form enterprises). Suddenly a female manager arrives from the US and transforms the traditional company to a modern Multidivisional form enterprise (M-form) where the managers take the decisions. The production processes is modernized from labor intensive to capital intensive and thus an industrial transformation occurs. This comes

¹³ For the role of the church see: 1) Robert J. Barro & Rachel M. McCleary: “Religion and Economic Growth across countries”, *American Sociological Review*, October 2003, pp: 760-781, 2) Ulrich Blum & Leonard Dudley: “Religion and Economic Growth: Was Weber Right?”, *Journal of Evolutionary Economics*, n. 11, 2001, pp: 207-230, 3) Christopher Hill: “Protestantism and the Rise of Capitalism”, in the volume: David Landes (ed.): “The Rise of Capitalism”, Macmillan, New York, 1966, pp: 41-52.

¹⁴ See: 1) D. Headrick: “The Tools of Empire. Technology and European Imperialism in the Nineteenth Century”, Oxford 1981, 2) D. Headrick: “The Tentacles of Progress. Technology Transfer in the Age of Imperialism 1850-1940”, Oxford, 1988, 3) Stanley J. Stein & Barbara H. Stein: “Silver, Trade and War Spain and America in the making of early modern Europe”, John Hopkins University Press, 2000, 4) Ronald Findlay & Kevin H. O'Rourke: “Power and Plenty. Trade, War and the World Economy in the Second Millennium”, Princeton University Press, 2007.

at a cost since many insiders oppose the changes. They actually plot to kill the woman however their attempt fails. The film attaches another sensitive issue for the era: That of the economic role of women. Until World War I (1914-1918) the role of women in western societies was marginalized. However when massive conscription of the male population occurred the women replaced men as bus drivers, farmers, nurses, post-women etc. women entered en masse the labor market during WWI and penetrated firmly after the end of World War II (1939-1945). The “victorious” female in the labor market was the first step for equality between the two sexes.

The book “The End of History and the Last Man” endorses many ideas. In there Fukuyama, points out that with the collapse of Soviet Union all repressive regimes will perish and that liberal democracies will remain the dominant state form. In these democracies the “master versus slave” dichotomy perishes and a new type of individual citizen emerges. In Fukuyama (1992:301, 305-307) words: “The typical citizen of a liberal democracy was that individual who, schooled by Hobbes and Locke, gave up prideful belief in his or her own superior worth in favor of comfortable self-preservation. It becomes particularly difficult for people in democratic societies to take questions with real moral content seriously in public life. Morality involves a distinction between better and worse, good and bad, which seems to violate the democratic principle of tolerance. It is for this reason that the last man becomes concerned above all for his own personal health and safety ...By putting self-preservation first of all things, the last man resembles the slave in Hegel’s bloody battle that began history. But the last man’s situation is made worse ...a living thing cannot be healthy, strong or productive except by living within a certain horizon, that is a set of values and beliefs that are accepted absolutely and uncritically...history teaches us that there have been [such] horizons in the past –civilizations, religions, ethical codes, “value systems”. ...[however] modern education that *universal* education that is absolutely crucial in preparing societies for the modern economic world liberates men from their attachments to tradition and authority....That is why the modern man is the last man: he has been jaded by the experience of history and disabused of the possibility of direct experience of values. *Modern education in other words stimulates a certain tendency toward relativism that is the doctrine that all horizons and value systems are relative to their time and place and that none are true but reflect the prejudices or interests of those who advance them...*”. (the emphasis is from the current writer not Fukuyama).

Let us summarize our argument so far. The motivation behind the improvement of living standards and conditions were: 1) the ethical Christian doctrines, 2) leaders which promoted change, 3) random events which also forced changes, 4) better quality human capital and 5) an efficient state apparatus.

However, the *altera pars* as expressed by Spengler (1922) points out that this process was already too materialistic and quantitative and this would eventually lead to the collapse of human civilization, since it disregarded human spirit, soul and environment.

4. The eras of Financial Capitalism and Post-capitalism

With the end of the 1970s Capitalism enters a new historical phase. This is not associated only with the collapse of the Bretton Woods system of fixed currency exchanges or with the two oil crises of 1973 and 1979. Until the 1970s Capitalism was the nexus of human labor and capital. The ratio between the two may have changed over time from labor intensive to capital intensive industries however capitalism was industrial and remained such for a long period of 1750-1979. However

after the 1970s the capital-labor relation is gradually abolished. Capitalism becomes financial and the old capital-labor relation is replaced by the capital-machinery (technology) relation. This capital-technology relation marginalizes the individual as labor and as a human being. And this is the most crucial transformation in the history of mankind for ages. *The human civilization has had two dimensions, namely the content and the form. The content is related to the human, spiritual and cultural activities; whereas the form is related to technological activities, methods of production, etc. The focus of the dimension has shifted from the former to the latter. This shift has created a completely new social situation. It is the first time in human history that artificial intelligence is more dominant compared to human intelligence.* To illustrate the chess match between the world champion Garry Kasparov and the computer Deep Blue in 1997 resulted in victory for the computer. During 2002-2003 three human computer matches resulted in drawn but during 2005 and 2006 again the computers scored victories against humans. In March 2016 the super computer of Google AlphaGo won the global champion in the ancient Chinese game of strategy Go.¹⁵ According to a different source “every minute of the day 204 million emails are sent, 2.4 million pieces of content are posted on Facebook, 72 hours of video are posted on You Tube, and 216,000 new photos are posted to Instagram...The sum of all this is the creation of 5.6 zettabytes in 2015. A zettabyte is 1 sextrillion bytes, or 1 trillion gigabytes”.¹⁶ The positive and negative ramifications from this shift are still not easy to predict. The immense transformation is best captured by Mason (2015) who points out that we are living in the era of “postcapitalism”. He points out that: “[...]in order] to understand...[the]...premonitions of doom we need critically to examine four things that at first allowed neoliberalism to flourish but which have begun to destroy it. They are: 1) Fiat money...which allowed...the whole developed world to live in debt, 2) Financialization which replaced the stagnant incomes of the... developed world with credit, 3) The global imbalances and the risks [from] the vast debts and currency reserves of major currencies, 4) Information technology...whose future contribution to growth is in doubt”.¹⁷ The author continues pointing out that: “The central premise...is that alongside the long term stagnation problem arising from the financial crisis and demographics, information technology has robbed market forces of their ability to create dynamism. It may not be possible to “rescue” capitalism, as Keynes did...because its technological foundations have changed”.¹⁸ The author distinguishes four Kondratieff style cycles [(1790-1848), (1848-1890), (1890-1945), (1940-2015)]. However the last cycle is divided between 1940-1990 and 1990-2015 periods. For the latter the author points out that: “[the cycle] is driven by network technology, mobile communications, a truly global market place and information goods. But it has stalled ...and it has ...something to do with technology”.¹⁹ He furthermore explores vividly the assertion: “In information based businesses, old style management begins to look archaic. Managing, means organizing predictable resources –people, ideas and things – to produce a planned outcome. But many benign outcomes of network economies are unplanned...postcapitalism is going to be driven by surprise discoveries made by groups of people...the most valuable things that networks...can do is to disrupt

¹⁵ See: www.wikipedia.org and www.zougla.gr assessed 17-03-2016.

¹⁶ See: Alec Ross: “The Industries of the Future”, Simon & Schuster, 2016, page 154.

¹⁷ See: Paul Mason: “Post Capitalism A Guide to our Future”, Allen Lane, 2015, p. 9. (our emphasis).

¹⁸ See: Paul Mason: “Post Capitalism A Guide to our Future”, Allen Lane, 2015, pages 29-30. (our emphasis).

¹⁹ See: Paul Mason: “Post Capitalism A Guide to our Future”, Allen Lane, 2015, pages 47-48.

anything above...Can laws, markets and business models really evolve dramatically to match the potential of info-tech?...every day a large part of humanity participates in a much bigger change, triggered by a different kind of technology: the contraceptive pill. We are living through the one time and irreversible cancellation of male biological power...It is absurd that we are capable of witnessing a 40,000 year old system of gender ...begin to dissolve before our eyes and yet still seeing the abolition of a 200 year-old economic system as an_unrealistic utopia".²⁰ These phrases capture vividly the argument. We are living a unique historical process which was never experienced in the past. Thus the current information-technology revolution has nothing to do with the previous industrial revolutions. The current technological changes perish economic and even biological forces to such extent that a totally different economic, social and political environment will eventually appear. Thus the current economic crisis is simply a reflection of these immense changes. Thus it is obvious that from the "battle of the sexes we have entered the era of the end of history and the last man".

5. Goethe, Faust and economic crisis.

In his monumental work Faust Wolfgang Goethe (1749-1832) created Mephistopheles who sells his soul to the Devil in order to be young and thus enjoy the fruits of love. Seen from the perspective of the Church ethics this "pact with Devil" is an act of corruption and brings condemnation; however from a deeper humanistic perspective it demonstrates the psychological need of the human soul for love and affection and partially demonstrates the fear of death (that is why Mephistopheles asks to remain young). What we observe in today's contemporary Western world is a tragedy similar to Faust. We have endorsed the concept of constant technological growth and innovation in order to: 1) reduce production costs, 2) improve the quality of the products, 3) reduce transportation costs, 4) create an information oriented society, 5) improve communications (all shorts), 6) minimize working hours and reduce the work force. But the West has lost its soul. We have replaced humanistic visions with money-oriented visions; in our attempt to reduce working hours we have perished the spare time which according to Aristotle it is extremely essential in order to think, debate and take the correct decisions. We take decisions in just minutes or even seconds for whatever matter and this quick decision-making process is certainly associated with long-term errors. Just to demonstrate the opposite philosophy of the current Western thinking we just mention that when the former Chinese premier Zhou Enl Lai was asked about the impact of the French revolution in a meeting in February 1972 with US President Nixon, he replied that "it was too early to say". Many believe that he was referring to the 1789 revolution whereas others believe he was referring to the 1968 student uprising in France. Whatever the reality, the concept may apply to our case as well. Instant or quick decisions are associated with high risks, in economics, business, banking, politics etc in other words in every aspect of life.

However there is an additional alarming aspect of the Western societies. This of bureaucracy. In the previous centuries we have seen that an efficient state apparatus was a precondition for economic development. However as the years progressed in many cases efficient state apparatus was replaced by inefficient bureaucracy. From the era of Adam Smith to the papers of Douglas North, a lot has been written about

²⁰ See: Paul Mason: "Post Capitalism A Guide to our Future", Allen Lane, 2015, pages 287-290. (our emphasis).

inefficient institutions, transaction costs and institutional failure.²¹ A typical example is that of Greece. To illustrate, between 1974-2012 -in 38 years- the Greek state has passed 4,100 new laws. To this, one has to add 115,000 new Presidential Decrees, Ministerial Decrees, norms and protocols thus in 38 years we have 119,100 pieces of legislations! This means 3,132 new legal documents per year or 8.6 laws per day! Many of these laws are contradictory. The outcome is an immense economic and transaction cost associated with the loss of thousands of working hours. The cost of bureaucracy in Greece is 7% of GNP whereas the EU average is just 3.5%. It has been estimated that if bureaucracy was reduced by 25% the net annual benefit for the economy would be € 5 billion.²²

According to a different survey made by the “Association of Hellenic Industries” during the period 1975-2005 the astonishing number of 171,500 legal documents have been made. This number is split as follows: 3,430 primary laws, 20,580 Presidential Decrees, 114,905 Ministerial Decrees, 24,010 District Attorney Decrees, 8,575 Municipal Decrees. The productivity of this “bureaucratic industry” is immense this means that 20 decrees are made per hour! Furthermore, according to the same survey any state contractual agreement in order to be checked, formulated and signed needs 230 days; whereas the EU average is only 108 days. Finally according to the data provided by the Ministry of Justice on March 31st 2013 there were still 29,319 outstanding cases in the Highest Court; whereas in other lower courts there were 332,809 outstanding cases. From those the 82,449 were associated with customs and taxation disputes, 30,365 cases were associated with fiscal disputes and 37,226 were associated with administrative disputes. To sum up the complex legal framework and the slow moving legal system (which enhances the bureaucratic rigidities), creates an annual cost of € 10 billion, i.e. double the amount which the previous survey estimated.²³ The constitution of 1975 has been amended three times in 1986, in 2001 and in 2008. The changes created an additional rigidity by reducing the powers of the President of the Republic and reinforcing the power of the Prime Minister. The monster of bureaucracy is certainly directly associated with the level of economic crisis in Greece.

Thus we have a Western economic system which has the following traits: 1) a problematic debt profile, 2) a demographic decline, 3) a severe collapse of ethics, 4) an information technology profile which is associated with quick decision making thus high probability of error, 5) an inefficient if not corrupted bureaucracy, 6) a shift of aesthetics from human spirit to materialism. These fundamentals are the real causes of the financial / economic crisis.

6. Concluding Remarks.

The current global crisis reflects broader and deeper transformations of the international political, economic, social, and cultural status quo. The West for

²¹ See: 1) Niall Ferguson: “The Great Degeneration. How Institutions Decay and Economies Die”, Allen Lane, 2012, 2) Christos Pitelis: “Market and Non-Market Hierarchies. Theory of Institutional Failure”, Blackwell, 1991. The above sources are extremely useful since the former is a critical assessment made by a liberal, whereas the latter is a critique made by a Marxist. We point out that Ferguson is extremely critical with the bureaucratic framework of US and UK, whereas Pitelis (1991) provides a general critique for the system.

²² Data obtained by <http://news.kathimerini.gr> [23-1-2013] and <http://www.lawyaltty.wordpress.com> [9-1-2014].

²³ Data obtained by <http://newsbomb.gr> [24-2-2014]. It is astonishing that various Greek administrations and the creditors of Greece have been blind about the bureaucratic rigidities of the country and simply focus all their efforts to increased state revenues via taxation!

centuries was the epicenter of the scientific revolution. This trend however occurred under the auspices of a broader humanistic / moral framework which was provided by the “marriage” of the Ancient Greek and Latin spiritual values with the values of Christianity. The driving force behind economic and scientific evolution was the effort to mimic God. To illustrate Mead (2007) points out that: “The idea that the world is built (or guided by God) in such a way that unrestricted free play creates an ordered and higher form of society is found in virtually all fields and at virtually all levels of the Anglo-Saxon world”. To illustrate, Oliver Cromwell (1599-1658) exclaimed: “*Thee goddess thee, Britannia’s Isle adores*”, this was a direct strong link between human action under Christian spiritual guidance and inspiration.²⁴ The Western Christian identity has been a driving force for change and progress but nowadays this has been marginalized if not perished completely by the materialistic spirit expressed vividly by the “rich and famous” proposition. The apotheosis of technology as the most essential force of change and the belief that constant unlimited technological change will drive to a better society is at least a fallacy if not a dangerous obsession. We must always remember the Aristotelian assertion: “The gravest injustices are never done by those in distress, but by those who go to extremes”. It is time to reassess the current global economic imbalances and crisis from a broader perspective, if we want to produce viable, long term solutions. The West will either return to the nexus of forces which created growth and prosperity for more than five centuries or it will observe the death of capitalism and its order.

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²⁴ See: Walter Russell Mead: “God and Gold Britain, America and the making of the modern world”, Atlantic Books, London, 2007, pages 15 and 28. Mead (2007) explains in immense detail the influence of God on the Anglo-Saxon world.

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