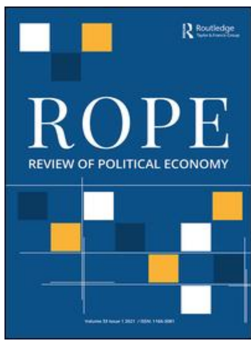

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Recession, Financial Instability, Social Inequality and the Health Crisis

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ABSTRACT
Advanced economies and several emerging market economies have had poor production growth for years. The problem has been address by economic and financial organizations. Faced with this, economic policies have been implemented to allow market mechanisms to operate and, to promote productive activity, including extraordinarily loose monetary policies. Central bank and government actions in the context of the pandemic are an extension of such previously applied policies. In the past, after the international financial crisis of 2008–9, these measures allowed banks to recover and for large companies to rely on significant profits. However, there was no significant growth in investment, let alone policies attempting to reduce social inequality. Such trajectories have gained strength during the pandemic.

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Introduction

Within a short few weeks, a large number of people learned about the fragility of their health systems. The weakness of the conditions in which large numbers of retirees live was also made visible to many. Suddenly, the wide universe of subcontracting and termination without social security conditions became obvious. In a large number of countries, informal labor came to the fore, with minimum incomes that are not sufficient for day-to-day life. In other countries, the fragility of unemployment insurance systems resurfaced. Data on social inequality shows disastrous conditions and how much will need to be done to rebuild any kind of Welfare State, commonly associated with democracy. These are issues related to the health crisis, present in all countries. Together, these constitute a specific agenda, requiring specific policies to face the problems at hand. The possibility of positively engaging largely depends on the future of the economy and on the policies taken by governments and central banks to face the problems observed with the drop in gross domestic product (GDP).

At the time the COVID 19 pandemic was declared, the world economy had already experienced years of weak economic growth. These are also years in which notable monetary decisions were implemented to create conditions for growth and the advance of investment. But if such measures have been taken, what can explain the continuous

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weak GDP growth? Particularly in the case of the advanced economies. And, what characterizes the relationship between the economic policies implemented and the maintenance of weak growth and rising social inequality? These questions will guide the following discussion.

The State of Affairs at the Pandemic's Arrival: A Noticeable Reduction in Economic Growth

In its 2020 *Global Economic Prospects*, the World Bank (WB) estimates a growth of the world economy at 4 percentage by 2021 (WB 2021). This takes into account that governments face enormous challenges, and that economies closed 2020 with a very weak recovery and with the pandemic still uncontrolled. For advanced economies the increase is estimated at 3.3 percentage. What is common in the studies of international economic and financial organizations, as in the opinions of leaders of a large part of the international financial companies and in the decisions of the most important central bankers, is that conditions exist to immediately recover growth based on the same macroeconomic policy framework. The WB observes that structural reforms are necessary in the long term to reverse the economic effects of the pandemic, and thereby stimulating productivity growth, including making the best use of digital technologies possible and promoting a sectorial reallocation of production (WB 2021).

However, these conclusions about the process do not consider the level of involvement of very diverse activities and the difficulties these have in recovering the level of operating conditions prior to the pandemic. For example, it will be important to know the conditions in which small and medium producers are found, which in many countries have a relatively significant economic weight. But the most important thing is that the previous performance of the largest advanced economies and a significant group of emerging markets and developing economies (EMDEs) is not taken into account. As discussed below, in these countries, there have long been difficulties in the behavior of capital formation that are related to growing trade tensions and to the behavior of global financial markets. In particular, the downward trend in investment is notable even when corporations are making large profits. Multilateral financial organizations reports and studies of previous months and years have warned of these problems and the economic difficulties that they imply.

Fully explaining the falling level of investment escapes the often narrow and incomplete focuses of economic study. For example, the reports of the IMF or WB are important starting points, as they take a global viewpoint and examine many of the most important economic issues of the moment. However, their analytic usefulness is greatly reduced by their ideological limitations. On the other hand, heterodox positions are useful in dismantling the foundations of these limitations, but by their nature they tend to be limited in scope. This article intends to explain the decline of global investment applying the global perspective of the reports of multilateral financial organizations yet without the limitations of mainstream thinking. This article will not review the heterodox literature on the determinants of investment, but is based on it, and will highlight a few key points of theory, and treat investment as an ultimate social product, only brought about when many economic, social and political factors permit. Therefore, investment can serve as a barometer of the success of monetary and fiscal policies, but

as will be argued, other factors must also be taken into consideration for a more complete analysis.

The 2007–9 Great Financial Crisis (GFC) represents a turning point in global investment, and the conditions of the pandemic point to an acceleration of the trend begun more than a decade ago. As can be seen in visual form in the balance sheets of the world's most important central banks, there are two historical inflection points in the drastic jump in assets as a result of the GFC and today as a result of the global pandemic. As a response to the GFC, central banks across the world employed quantitative easing (QE) programs under the monetarist belief that banks are merely financial intermediaries that pass money from the government to credit seekers, and that the supply of loanable funds determines the flow of credit. Heterodox critiques have rightly focused debate on such dubious theory. Within circuitist and modern monetary theory, authors often give emphasis to the flux and reflux of money at its beginning and ending stages, and rarely focus on what comes between. This is certainly understandable, as the creation of money has been at the center of exciting debates in economics in recent years; even taxes, both within the chartalist monetary thinking, as well as with post Keynesian proposals for financial taxes, have been present in the literature in recent years.

However, what is generally ignored within the debate over the supply and demand of money are the transmission mechanisms. Few authors have highlighted how the banking and financial systems have transformed in the wake of the GFC, and perhaps even fewer have focused on the decisions at both the corporate and state level regarding physical investment. Such considerations are easily accommodated within the heterodox tradition, and as this paper argues, are fundamental to explaining why weak growth and social inequality and a lack of dignified work continue to be exacerbated, despite public policies that have promised to address them.

There are certainly convincing arguments regarding why QE would not increase investment from the post Keynesian camp (Rochon 2009; Seccareccia 2017), but usually the element of investment decisions is left to the less heterodox and treated as animal spirits (Akerlof and Shiller 2010). In general, the private policies of investment receive much less consideration than the public policies of investment. This paper does not argue that this is unjustified, but only that the lack of investment must be explained in a more integral fashion. Similarly, within a circuitist perspective, recognizing that the starting and ending points of the monetary circuit present grave deficiencies in current economic systems, should not come at the expense of recognizing that there are also other points within the circuit that also determine the lack of investment. Therefore, this article will employ the perspective of investment within the monetary circuit and examine the effects of current monetary and fiscal policy and how changes in the global marketplace have altered the investment decisions of the world's largest governments and corporations.

The Global Economic Conditions a Decade After the Great Financial Crisis

Ever since the international financial crisis of 2008–2009, international trade has not recovered the growth trend of the 2000–2007 period (Bekkers et al. 2020). In 2019 there was a fall in relation to the previous year, which changed the trend observed since 2011. The decrease in international trade in 2019 is explained by trade

tensions and the behavior of GDP at the global level, characterized by poor growth (WTO 2020).

Weaknesses in economic growth after the GFC was a relevant fact observed in advanced economies and in some EMDEs. The WB highlights this in its June 2020 report: 'Prior to the pandemic, the global economy already faced prospects of slower long-term growth, with long-term (ten-year-ahead) growth forecasts having been repeatedly revised down for all country groups since the global recession of 2009' (WB 2020b, p. 144). Previously, the IMF, in the WEO of October 2019, also mentioned the weak growth of the global economy, which was equivalent to that achieved in 2018 (IMF 2019). At the beginning of 2020, the WB acknowledged the poor growth in investment and international trade in 2019, recognizing that the world economy had the worst performance since the international financial crisis. The report shows that advanced economies maintained poor growth and since 2010, EMDEs are also slowing down (WB 2020a).

The IMF sustains that the weakening of world growth is associated with the behavior of the main advanced economies, including the United States and the countries of the Eurozone. Furthermore, the slowdown in economic activities in EMDEs, including Brazil, China, India, Mexico, and Russia is important. There are tensions and problems affecting global productive and financial activities. One common feature of the weakening in growth momentum has been a geographically broad-based, notable slowdown in industrial output driven by multiple and interrelated factors (IMF 2019, p. 1). Since the beginning of 2018 a downward trend in industrial production has been observed, including the volume of the world trade and in the Manufacturing purchasing managers' index. The reduction in industrial production is observed in the United States and the United Kingdom. In Germany and Japan it has been present since the beginning of 2018, but also in France, Italy, the Netherlands, Spain and China (IMF 2019: Figure 1.1; panel 2: 2).

The weakening of industrial production is in part due to the behavior of corporations, changes in the operation of some economic activities and the continuous trade disputes between the largest economies. The latter is observed in areas such as technology and the positioning of the Chinese economy worldwide. The IMF (2019) highlights the slowdown in car production and sales, including a reduction in international vehicle purchases, the inadequacy of production lines to meet emissions standards (particularly in the Eurozone), and changes in the very production of automobiles (displacement of diesel vehicles, advancement of electric cars). Taken together, the changes at the base of industrial production and its weakening have been deepening for some years. The recent behavior of the world economy does not offer a clear solution. Changes in demand by China and the global role of this economy are also ongoing.

The commercial and technological disputes between the United States and China are related to the inclusion of corporations based in the Asian country within the group of the largest transnational firms, including high-tech firms. This implies that they have multiplied their cross-border investments and compete with a wide group of countries. The United States government sanctions against Huawei Technologies, with headquarters in China, are an example of the technological disputes that apply to a company with a global presence. According to the UNCTAD, the Chinese firm is the fourth in the world for the amount of research and development (R&D) spending in 2018, following Amazon and Alphabet, in the United States and Samsung Electronics Co, Ltd in Korea (UNCTAD 2019). Along with other companies in China (Tencent Holdings,

China Mobile, Lenovo Group, Midea Group, Qingdao Haier) Huawei Technologies has an active participation in R&D spending and is part of the largest transnational companies.

There is also competition in the automotive industry with the participation of large companies with headquarters in China. Firms from that country have an international presence and have made acquisitions of companies in the sector (Volvo, Lotus, MG). They have participated as shareholders in several of the largest global companies (PSA, Daimler) and are heavily supporting the development and expansion of the electric car market. This is partly due to an initiative of the Chinese government so that by 2025, 20 percentage of the cars sold in the country will be electric or rechargeable hybrids. It is important to note that presently, China is the world's largest automobile market, widely surpassing the United States in the number of units produced and sold within its territory. These data indicate that disputes will continue, with the involvement of governments. In this environment, uncertain scenarios can multiply, including how investments by large companies will proceed. This contributes to the weakness in the growth of the economy and in the depressed behavior of investment.

Regarding China's role in the global economy, since the end of 2013 there has been a downward trend in inward foreign investment (IMF 2019). This is particularly relevant because for the last 15 years the imports of capital goods from the United States and Europe have been significant: 'IMF staff analysis suggests that a 1 percentage point investment-driven drop in China's output growth would reduce Group of Twenty (G20) growth by 1/4 percentage point' (IMF 2016, p. 10). The future evolution of investment in China will weigh on global demand. One aspect of the problem is the internationalization of parent companies in China and the way in which global value chains are affected. The result for years has been a weakening of investment on a global level, and the WB (2020a) underlined that in 2019 there was weak growth in investment and world trade. In April 2016, the IMF pointed out that 'After bouncing back following the global financial crisis, global trade and investment have slowed notably, both in absolute terms and in relation to world GDP growth' (IMF 2016, p. 13). Overall, a trend of weak growth in the economy is accompanied by a decrease in investment and by episodes of financial volatility. In the World Economic Outlook April 2016, the IMF extensively documents the process (IMF 2016). The poor growth of the world economy, including advanced economies with weakened growth in investment, has been the trend for years. This will continue as long as the problems that cause this behavior are not resolved.

Monetary Policy and Global Implications on Investment

In the sphere of finance there are also long-standing problems. In January 2020, when establishing its scenario for growth, the IMF considered this to be possible due to the financial stability achieved. However, this situation continues to depend on the application of particularly lax monetary policies by the major central banks. The IMF specifically refers to the return or continuity of zero bound interest rates. The Financial Stability Board (FSB) stressed that in response to the GFC, under its coordination, financial reforms were implemented and are progressing well. However, 'After a decade of very low interest rates, financial institutions and markets may not be sufficiently prepared for potential economic and financial risks from adverse market developments' (FSB 2019, p. 2).

During 2019 and taking into account the poor growth in the economy, the Federal Open Market Committee (FOMC) agreed not to make any further increases to the federal funds rate. With this measure, it modified a decision made at the December 2015 meeting, when the FOMC proposed moving towards a normalization of monetary policy and agreed to raise the target range for the federal funds rate, the first change since December 2008. Increases were sustained until 2018, when increases were voted for four times, with the last on December 19, 2018. Related to the inability to escape from the zero bound of interest rates is the inability to end QE programs.

A normalization of securities purchase programs was agreed to by the Federal Reserve (Fed), in October 2017, initiating a reduction of the Fed's balance sheet. Before this, there was an incident that revealed the scope of the intervention of the United States central bank in financial markets. In 2013, the Fed's president stated that it was time to modify the program of securities purchases by the central bank and proceed with its reduction. Important participants in the bonds markets in the United States disagreed and quickly dropped the prices. There is also a considerable outflow of capital from emerging markets. It was a notable episode of financial instability linked to the Fed's proposal for a return to normality regarding its balance sheet.

As discussed in a previous article (Vidal and Marshall 2019), the 2013 'taper tantrum' has a strong historical parallel with the Fed's short-lived QE program of the 1930s. The execution of the balance sheet normalization program agreed to by the FOMC lasted from October 2017 to August 2019, with a reduction in assets from 4.46 trillion dollars to 3.76 trillion dollars (Federal Reserve 2020). From September 2019 onward, a further increase in assets associated with financial instability and the persistent weak growth in the US economy was observed. The FOMC communicated in October 2019 the complex path facing a normalization of monetary policy and the balance sheet of the central bank (FOMC 2019).

In the last quarter of 2019, the Fed and the ECB took measures in line with the decisions made after the outbreak of the 2008–9 international financial crisis. In one case, the reference interest rate was lowered again, and the purchase of securities was ramped up; and on the other, increases in reference interest rates from the zero level were left aside for one more year and the purchase of securities increased.

In the Eurozone, financial instability due to the behavior of debt markets in some countries was observed. In 2019, and for its main refinancing operations, the ECB kept the interest rate at zero percent. At the March meeting, the ECB sustained that 'These new operations will help to preserve favorable bank lending conditions and the smooth transmission of monetary policy' (ECB 2019). Yet The ECB has also made significant increases in its debt purchase operations since November 2019, in a scenario in which it had not raised the reference rates since July 7, 2011. In other countries, such as Norway and Australia, reductions in reference interest rates were made in 2019, returning to levels close to zero percent. In other countries, rates are kept low (Denmark) or at negative levels, as in Switzerland and Japan. The result has been the execution of extremely loose monetary policies, with low benchmark interest rates and the purchase of public and private securities by central banks, measures that had been maintained since the GFC, before the start of the pandemic and that accounts for structural problems in the performance of advanced economies, which have worsened in the current context of the pandemic.

The Financialization of the Corporation Advanced Within the Context of the Zero Bound

If one considers the behavior of other advanced economies, such as Japan and Great Britain, it is possible to argue that there has been no advance towards what could be called a normalization of monetary policy. For years there has been a notable flood of liquidity, with low benchmark interest rates and the execution of various programs to clean up the financial statements of large global banks. However, sustained economic growth is not achieved nor is significant and stable investment growth.

Since the bankruptcy of Lehmann Brothers in September 2008, the measures carried out by the governments and central banks of a large part of the advanced economies have increasingly included purchases of shares of industrial companies, banks, insurance companies and other financial and non-financial firms. This, along with low interest rates, has allowed corporations to continue operating through restructuring and other changes. One result is the restoration of banks' and other finance firms' balance sheets, but there are also changes in the ownership of the firms. In several of them institutional investors have become shareholders.

The presence of the largest banks in the operation of the financial system has been preserved. The Bank for International Settlements (BIS) highlights this in its 2015 report that 'Investors' risk-taking remained strong as expectations of policy rate increases were pushed out further and additional asset purchases undertaken' (BIS 2015, p. 25). This is a scenario in which bank balance sheets have been restored, but the economy continues to trend towards weak growth (Lazonick 2014). It is not only monetary policy that determines investment, but also the changing landscape of financial markets and corporate ownership. The overall result is that 'Globally, the flood of money from monetary easing, including QE, has not led to the hoped-for increase in investment' (Stiglitz 2016, p. 640).

Until the GFC, the United States economy grew from speculative bubbles to bubble, alongside the transformation of the corporate landscape (Guttmann 2010). The starting point was the conservative Reagan revolution. In the eighties, finance firms and the largest corporations found a space for financial placements in the processes of debt securitization and the explosion of the issuance of high-yield Bonds. The process concluded in two phases: the crash of the New York Stock Exchange in October 1987, and the collapse towards the end of the decade of the high-yield bonds market. At that point, the private equity firms were ascending and traditional banking receding.

The nineties witnessed the growth in the stock market of high-tech companies, most of them relatively new, with significant increases in asset prices towards the end of the decade. Highly profitable financial funds participated in the growing over-the-counter derivatives market. The process included the 1998 bankruptcy of Long-Term Capital Management, with an impact on the entire financial system of the United States and later, in the following decade, with the collapse of the Nasdaq bubble. In both processes of bubbles forming and then popping, there are important changes in the management and composition of the capital of many large corporations. In the 1980s, leveraged buyouts were used to attack large firms that were undervalued, resulting in corporate restructurings and bankruptcies, allowing for financial benefits for the capital that executed the operations.

While new means of financial placements were established, ‘maximization of shareholder value was increasingly placed at the center of corporate governance and forced many companies, operating below the mid-tier, to implement radical restructuring’ (Guttmann 2010, pp. 193–194). Henceforth, during the 1990s, in the United States, but also in European Union economies, the participation of investment funds in the capital of all types of firms increased, further moving management towards shareholder maximization, expressed in the criterion of quarterly earnings per share as the measure that defines performance and also the income for managers (Orléan 1999; Plihon 2003; Guttmann 2009).

Changes in the 1990s include a notable financial internationalization, led by capital based in the United States. This can be seen in the significant increase in ratio of the values traded on the stock exchanges of the U.S. in relation to the global total and the size of the capitalization of the US stock exchanges in relation to the rest of the world’s stock markets (Vidal 2003). The 1990s is the period in which:

> The scale of the inflows and the broadening of market access provide evidence for the hypothesis that the 1990s represent a restoration of the trend toward global financial market integration that had been evident in the gold standard period and the 1920s but was disrupted by the Great Depression, World War II, and the capital controls systems of the postwar period. (IMF 1997, p. 27)

The substantive processes in the performance of advanced economies, led by capital with parent companies in the United States, include the global integration of financial markets, the management of corporations based on the principle of achieving maximum quarterly earnings per share, capital displacement to the most diverse economies, and the multiplication of merger operations and cross-border acquisitions. After a pause after the Nasdaq crash, these processes gained strength again.

Global financial markets and corporations have therefore operated under the conditions of an economy that grows via financial bubbles and the expansion of the US corporation, and the greater emphasis on shareholder value along with the rise of private equity. The turn of the century saw the growth of structured product markets, including subprime mortgages, leading to the new collapse that was observed between 2007 and 2009. What has been done to face this crisis, as highlighted above, starts from the idea of sustaining financial markets and the operating conditions of large corporations to reestablish market confidence, and with it, the growth of economies. However, this has not happened.

Something notable in the period after the subprime mortgage crisis is the reappearance of secular stagnation in advanced capitalist societies. This argument requires its own debate, but is pointed out here to argue that to date, with the solutions implemented, it has not been possible to recover sustained economic growth. This is comparable to what happened in the 20s and 30s of the last century, when the transformation from an agricultural to an industrial-based economic occurred (Stiglitz et al. 2012).

However, neither then nor today was there a carefully designed outcome, aside from a number of interests. The lack of economic direction prevents building social processes, which in turn would allow progress and social inclusion. Yet it is a means of maintaining large profits. In this sense, the argument of Stiglitz (2018) on secular stagnation is relevant. Stiglitz suggests that it is a myth that seeks to justify the non-execution of a relevant

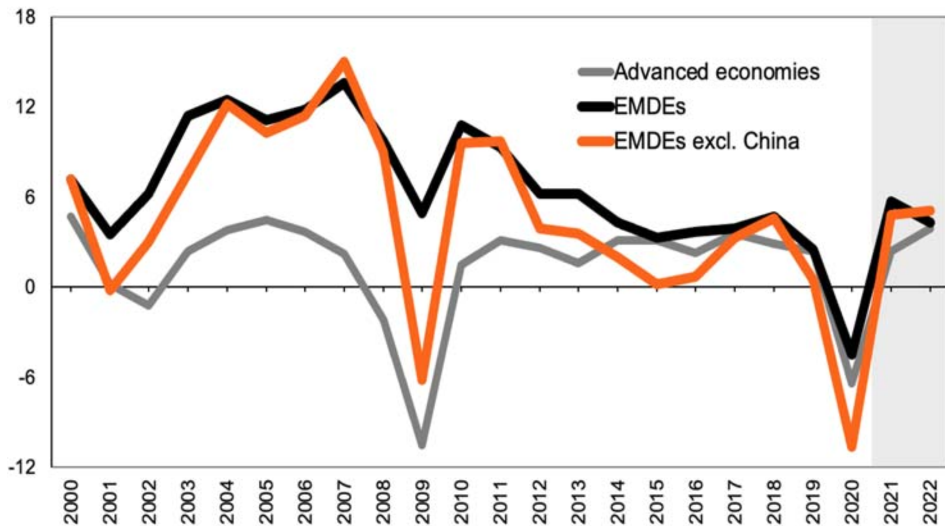
economic policy to promote change and a new productive articulation of the economy. Only in financial markets, consider that in 2011, the BIS points out that the imbalances that caused the 2008–9 crisis persist, which partly explains the weak recovery of global economies (BIS 2011). As highlighted earlier, in a subsequent report the BIS (2015) warns that international financial markets continue to depend on central banks, which is more forcefully applied in the current situation. What is therefore novel about today's situation is the condition in which the economy has persistent trouble maintaining full employment, even with ultra-low interest rates. It is akin to companies recording record profits but not investing.

The data presented by the IMF in its October 2019 report revealed that since the end of 2009 there has been a decline in investment growth in all advanced economies. In the following years, the trend is confirmed with an average increase of 2 percentage from 2011 to 2019. Countries in the euro zone are even well below this figure (IMF 2019). If the performance of these economies during the previous decade is considered, with an average increase from 2001 to 2010 of 0.5 percentage, the increase in the financial profits of corporations is not in turn mirrored by an increase in investment. It is possible to observe the differences in the behavior of advanced economies since the GFC. For example, in the period from 1996 to 2007, Gross Fixed Capital Formation (GFCF) grew at an annual average of 3.1 percentage. In the following decade, GFCF growth was a mere 0.3 percentage (IMF 2016). Between 2008 and 2017, in the Eurozone, the GFCF had a negative growth of 0.7, including a minimal increase in Germany. In Japan, a negative rate is observed for a consecutive decade and in the United Kingdom the result is only slightly positive, with an annual average growth of 0.2 percentage (IMF 2016, p. 230). In 2018 and 2019, as noted above, the weakness in investment continues.

In emerging market and developing economies, investment has shown a downward trend of growth since the years immediately after the international financial crisis of 2008–9 (Figure 1).

Measures implemented by central banks and governments in advanced economies after the crisis of 2008 and 2009, especially in the United States, did not make a sustained and firm recovery in economic growth possible. Investment behavior is related to ongoing changes in the dynamics of the main advanced economies and in the behavior of the largest corporations worldwide. For example, 'large American corporations are sitting on almost two trillion dollars of cash. It is not corporate balance sheets or their access to finance that is holding them back from investing: it is lack of demand' (Stiglitz 2016, p. 640).

Yet this idea of lack of demand must be explored further. The weakness in the demand has multiple causes, which have taken place due to the transformations carried out in the organization of economies. As highlighted earlier, the weak growth in investment, at the global level, is related to the decrease in capital formation for goods and equipment in China. In previous years, it had a relevant role in sales within the United States and Europe. The strengthening of the corporations with headquarters in China, the expansion of investments in their territory and in their area of influence, will deepen the negative impact on the behavior of the demand for investment goods in advanced economies. Changes in labor markets and in the global operation of corporations have also had a negative impact on the decrease in global demand.



Source: World Bank. 2021. *Global Economic Prospects, January 2021*.
Note: EMDEs= emerging market and developing economies. Data for 2020 are estimates and for 2021-22 are forecasts (shaded area). Investment refers to groos fixed capital formation. Aggregate growth is calculated with investment at 2010 prices and market exchange rates as weights. Sample inclides 97 coutries, consisting of 34 advanced economies and 63 EMDEs.

Figure 1. Investment Growth.

For many years it has been argued that labor markets are rigid, and that this does not allow for a reduction in unemployment and much less, suitable occupations to achieve maximum economic efficiency. There is extensive literature that supports the hypothesis of labor market flexibility (LMF) as a condition for strong growth (Layard, Nickell, and Jackman 2005). This leads to a set of economic policy recommendations such as cuts in the minimum wage, less unemployment protections, reductions in social benefits and organized unions. They are recommendations to be applied in advanced economies and in EMDEs. In Europe, the implementation of economic policies in accordance with the proposals of LMF has not allowed sustained progress in employment and, even less, an increase in investment and consumption (Galbraith 2012, p. 213). In Latin America, the implementation of measures to advance LMF has not resulted in increases in investment and consumption. Such policies have had a negative impact on global demand and are part of the conditions that generate weakness in economic growth. Both labor rigidity and lack of demand can therefore account for some of the lack of investment, but a key factor is the dysfunctional credit system, in which the corporate treasuries of non-financial corporations play a large role. The management of corporations therefore also explains a part of the weakness of investment.

Corporations carry out investment strategies that consider a global implementation and the construction of supply chains that make it possible to achieve their production and profit objectives, thus considering sets of countries as a single economic space. As highlighted above, this way of organizing economic activities does not necessarily drive growth in capital formation. Mergers and acquisitions (M&A) play an important part. M&A involve the integration of processes, rationalization of activities, and

reduction of personnel. These have been carried out for many years now, and this explains, in some years, a large part of foreign direct investment flows (Vidal 2019). One example is the automotive industry, organized globally from a small group of large firms that have participated in various M&A operations for years. To date, the rationalization of investments is an outstanding fact in this industry, with continual mergers and other agreements that allow for the integration of production platforms, marketing chains, and global implementations. All of this does not drive investment, nor does it firmly increase demand, considering intermediate goods and machinery and equipment. It is in this context that there are corporations with high profits and significant amounts of resources to invest, but that do not invest.

In the United States, there is a downward trend in net investment as a proportion of net operating profit since the mid-1980s. Although in this long period, some years with relative increases are observed, as in the nineties, but the trend is downward and has been firmly observed since the beginning of the current century. During the GFC and the great recession, the ratio of net investment to earnings fell even lower, but in the following years the trend did not change (Gutiérrez and Philippon 2017). It should be noted that the decrease is more significant in industries with greater concentration and also in those in which the shareholders and directors of the companies promote a governance that seeks to achieve the greatest benefits in the short term (Gutiérrez and Philippon 2017).

The downward trend in investment is related to how companies finance themselves, but also to how they are financially related with the rest of the market. As highlighted earlier, in the eighties, the rise of the private equity firm and the corresponding growth of the high-yield bond market was a means of modifying the operating conditions of many firms, forcing changes in their management and ownership. Afterwards, the participation of institutional investors as shareholders of corporations strongly advanced in a context in which the macroeconomic environment forced firms to operate in ways seeking the highest profits in the shortest term, all with the consequent distribution of dividends. In the case of the United States, for years it has been observed that firms have used their profits to buy back shares as a method of achieving higher profits and increasing the distribution of dividends to shareholders. Long-established companies, such as Pfizer, IBM, and Boeing, and newly-created firms such as Alphabet and Amazon operate in this way (Brender and Pisani 2018, pp. 116–118). There are similar processes in the largest firms of other countries, placing the highest profits in the short term at the center of the corporation's performance. Everything adds to weakened capital formation, while maintaining means to obtain high profits and dividends. Yet this dynamic was also modified after the subprime crisis.

Several years ago, central banks and governments implemented new measures in advanced economies to overcome the GFC. This was notably in the United States, but it did not result in a sustained and firm recovery in economic growth and investment. The rescue operations of large corporations that took place after the subprime crisis, in the United Kingdom, Germany or the United States, plus the notable injection of liquidity, allowed the recovery of financial markets and an increase of institutional investors as shareholders of large companies. For example, in General Motors after the rescue by the United States government, once shares were sold, institutional investors took 77.85 percentage of the company's total shares (2013). In AIG there is a similar situation,

as well as in Apple or Coca Cola. With investment funds as relevant corporate shareholders, their administration as simple financial assets is deepened, defining investment decisions regarding production capacities and debt placements and the wide variety of financial instruments created in recent years. The administration of securitizing assets and multiplying corporate treasury operations in financial markets is imposed.

The decisions of the firms themselves have strengthened the processes in which the corporate profits and the reorganization of markets are not reflected in increased investment. One of the results has been that the means for financial placements have been strengthened, and the abundance of monetary liquidity in the market has the effect of reducing productive investment, without sacrificing greater corporate profits. This is the expansion of financialization, and what can explain the bifurcation of investment, with credit increasingly channeled towards financial investments and not physical investment, creating ever greater social inequality.

The BIS observes this process and highlights that the internationalization of economic activities and the advance of globalization has a substantial component in financial openness. Since the 1990s, there has been a notable deepening of the internationalization process. As highlighted above, financial internationalization is the relevant element of the process: 'gross foreign asset and liability positions grow much larger than net positions, underlining the more independent nature of financial linkages: financial openness has substantially outpaced real openness since the late 1980s, most notably for advanced economies' (BIS 2017, p. 99). The process is characterized by a complex network of financial relationships that have an exclusively financial purpose. It is also accompanied by increasing social inequality. Income increased in certain years, but it is concentrated only in some regions or cities. The most dynamic economic activities manage to create a small group of new jobs, but the remuneration for equal jobs has notable differences. In the United States, Galbraith's research demonstrates the relationship between widening inequality in American society as a whole and the growth patterns of the economy for several decades up to the subprime mortgage crisis: "very plainly, it means that since the 1980s the American business cycle has been based on financial and credit bubbles, and therefore on the enrichment, through the capital markets, of a very small number of people in a very few places" (Galbraith, 2012, p. 148).

With other characteristics in Europe, in other countries and globally, inequality advances as part of the performance of the economy. Galbraith's research shows that with differing characteristics, but also as part of the performance of economies, inequality advances in Europe and in the world economy as a whole. This being the product of the action of certain forces that have a mainly financial nature, which 'have to do first and foremost with interest rates, the flow of financial investment, and the flow of payments on debts, internal and international' (Galbraith 2012, p. 289). The changes discussed lines above give an account of the mechanisms created to strengthen the benefits for a few. Growing inequality is one of the results of this process, and the economic policies implemented in the context of the pandemic to maintain financial markets will result in more inequality. Conditions are not created for investment to recover firmly. Financial markets cannot operate without preserving the so-called exceptional measures carried out by central banks. What has been done deepens financialization and shows the dominance of the interests of a small group of large investors.

Conclusions

The extent and duration of the contraction in economic activity in the context of the COVID-19 pandemic is unknown. However, as analyzed above, advanced economies have a long period with weak GDP growth and weaker investment. This is based on economic growth with an abundance of monetary liquidity that reduces investment. Corporations are organized to achieve maximum profit for shareholders, quarter by quarter, and the income generated is used to achieve that purpose. In these decades markets have been transformed, driven by a notable financial internationalization that develops its own means, and creates connections for strictly financial reasons.

The measures taken in the face of the GFC, first in the United States, deepened this way of operating the economy. The injection of resources by the main central banks and the maintenance of reference interest rates at zero or even negative rates is a fact that was present even before the health crisis. The measures implemented in the most important advanced economies are those of the years of 2009 onwards. The financial system is flooded with more liquidity, debt purchase operations are carried out, and the composition of financial markets is both defended and transformed. With this, there are no conditions that will modify productive activities, allowing to recover sustained economic growth and much less, to face social inequality.

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