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The Deeper Reasons for the Shaking of the World Economy

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What can the reasons for the slowing down and dangerous shaking of the world economy in the middle of 2011 be? Is the instability, caused by the payment difficulties of certain countries in Southern Europe or even the USA, a sufficient explanation for all of this? Are the acknowledged economists and politicians right who say that the problem is not so serious and that we only need to adjust our pessimistic views and the world economy will be on the right track again? Indeed, the world economy has perhaps not arrived at the second phase of the double-dip crisis yet. However, the deeper processes must be examined in order to understand the current situation. In my view, the deceleration of the world economy, the possible new decline and the multiplication of the payment difficulties are not primarily caused by the mistaken economic policy and payment problems of certain countries, but rather predetermined and clearly describable world economic processes related to the operation of today's capitalism.

The function of economic crises has always been to destroy or eliminate capital (production units, masses of products, liquid assets, etc.) that have over-accumulated during booms, cannot be reinvested economically and do not bring sufficient profit. Although the great crisis of the 2000s has caused the second biggest shock since World War II in the world economy, it has not (yet!) accomplished the Schumpeterian "creative destruction" that would have meant the elimination of excess capital at a great price. *The enormous governmental money-creating bank-saving rescue packages and the swelling of the amount of money in circulation has (so far!) prevented a serious world economic collapse. But the price has been high. The same basic tensions and distortions have not been solved; they have only been eased a little and for a while in certain areas and have even turned more serious in others*. Of the symptoms exhibiting significantly more tension than in the previous phases of capitalism, I will examine three: the enormous financial bubble, excess production capacity and international payment balance distortions.

All in all, the financial balloon, already enormous prior to the crisis, has kept on expanding. 1. International interbank money circulation has actually stayed at the same level. 2. The volume of foreign direct investments is at the moment lower than during the outlier year of 2007. However, it has already surpassed the level of 2006. 3. Owing primarily to new borrowings and the indebtedness of states, the value of the registered debt instruments has grown by 22 percent compared to the level before the crisis. 4. The largest sum is the stock and circulation of currency and the so called derivative (OTC) assets serving financial speculation. Speculative assets amount to more than ten times our planet's GDP. And daily speculative turnover (the rate of circulation) has grown by 20-25 percent since the beginning of the crisis! This means that the total amount of money (in US dollars) circulating in speculative markets exceeds 4 trillion a day. So an amount equivalent to the world's GDP circulates every 14-15 days (in 2007 it was 17 days).

In two areas there has been a real loss of value (partial write-off of losses) during the previous years. In the *stock markets* – despite the stabilization following the deepest phase of the crisis – the indexes were, prior to the latest weeks' swings, 10-30 percent lower than the level three years before. The other important area is *real estate markets* where, at least in the developed countries, 2011 prices are about 20 percent below the level of 2008.

However, investors did withdraw some of their capital from the stock exchanges and real estate funds and *searched for, and found, new fields of investment*. They "escaped" to *securities*, represented by the aforementioned state debts, to *financial speculation* (partly Swiss Francs and Yen) and to products representing physical value such as *art objects, gold and raw materials*. This is the primary reason for the fact that – contrary to the former world economic crises – after a short term decline the prices of food and industrial raw materials have kept growing.

These days, most experts do not even deal with *excess production capacity*, i.e. real economic "over-accumulation". Perhaps they have forgotten that the dotcom bubble shook the world only a few years ago. The car industry offers another example. The crisis rescue packages, the scrappage programs and the state funded workplace rescue packages saved many production lines and big companies like General Motors. This is why there is one third surplus capacity present in car production today, just as prior to the crisis. Such a rate was impossible during the former phases of capitalism because it would have led to a series of bankruptcies.

Another area of world economic tensions is *the financial problems of most of the countries, their budget deficits and international payment imbalances*. The latter, for instance, has hardly reached 1 percent of GDP historically. But in 2006, just before the crisis, the deficit of the world's biggest economy, the United States, amounted to 6 percent. Today it has fallen to 3 percent, but remains unsustainable. It is unsustainable because no country can consume more than its production of goods since its debts will keep increasing. It is also an abnormal situation that the whole world is financing the USA. In the 2000s, even Black Africa had a positive balance against the United States. Despite serious problems, not even the IMF thinks the United States or any of the many indebted countries will start decreasing their debt. Instead, the debt will keep growing.

The persistently unstable liquidity of many countries and their indebtedness *raise theoretical questions concerning the model of capitalism*. The question arises, with passing time, why should more and more countries face liquidity problems? Six basic reasons could be seen which are connected to each other. 1. In the course of uninterrupted globalisation, fewer and fewer means are left for individual countries to influence economic processes, to stop or reduce the troubles in the economic balance. The smaller and underdeveloped the county, the fewer are the means. This applies to the Euro zone as well. Joseph J. Stiglitz, Paul Krugman and many others say that while the advantages of the common market are concentrated in the developed world, the weaker countries are suffering heavily from being divested of the economic and political means of playing a significant role in the case of imbalance problems, such as the possibility of leading monetary policies (issuing money, interest rate policies, currency devaluations and open market operations) or the possibility of introducing extraordinary import duties. The current interest rate policy (rise of Euro interest rates) likewise serves the stronger countries and destroys the export capacities of the weaker ones. 2. Contrary to all rumours, as far as the average of the developed countries is concerned, budgetary redistribution (budget/GDP) has kept growing in the most recent decades (in my opinion, necessarily). 3. At the same time, however, most states face growing difficulties finding the revenues necessary to finance their expenditures. In particular, the income states have accrued from their own properties are, because of privatization, continuously decreasing. Corporate taxes are declining all over the world (and their share of GDP is growing). As a result of general market opening, the duty incomes of states have fallen to a minimum. 4. In periphery and semi-periphery countries, the income consumable domestically (GNI) is lower than that produced (GDP), because 5-10 percent of the latter flows abroad. 5. At the same time, in the developed countries weak market demand (low consumer incomes) and slow economic growth restrict the economic field of activity of the governments. 6. States, companies and the broader population as well, have bridged the serious lack in demand and incomes by becoming more indebted. Debt assets registered worldwide are equivalent to several times global GDP, an unsolvable trap situation.

State debts themselves are on the order of one year's global GDP. In addition, owing to the rise of interest burdens and the subsequent devaluation by international credit rating agencies, high debts generate further deficits! And then investors speculating against the countries arrive… *This model*, persistently recreating payment difficulties, the clearing of debts and new restrictions, *actually failed in the developing countries in the '80s and '90s*. Most economic restrictions only improved balances temporarily. In the developed countries this contradiction, this "model problem", sharpened in the 2000s. The fact that the world economy was only able to prevent collapse through state intervention—what we might term *Keynesian* money injections—also indicates the unsustainable nature of the current neo-liberal system. However this method raised the "debt mountains", saved the unsustainably enormous financial, and in some cases real, economic balloon which is now easily tearing, it has become so taut. This balloon or bubble may only exist as long as stakeholders believe that virtual values can be turned into products. Unless a strong sales trend starts and truth comes to light, an enormous collapse could come.

We cannot say whether all this will lead to another great financial crisis in the short run. Experience suggests that in the globalization era, the world economy can co-exist with accumulating tensions thanks to the growing of balloons. We must, however, pay the price: slower growth, difficulties in financing production, the sharpening of the international economic (trade and financial) debates, a need for new government-funded economic rescue packages, the international consortial management of bankruptcies, the further accumulation of crisis factors, etc. We can, however, take it for granted that the possibility of a new big crisis wave has again strengthened in the middle of 2011.

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