The Crisis of the Early 21st Century: General Interpretation, Recent Developments, and Perspectives

Preliminary draft

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More than three years after the appearance of the first symptoms of the current crisis in August 2007, there is still no general agreement concerning the causes of the crisis, the present situation (as of May 2011), and the perspectives for the forthcoming decades. There is no surprise that mainstream economists and economists belonging to the radical Left diverge in their interpretations but, even within circles sharing the same broad viewpoints, it is difficult to identify consensual assessments. There is no need, however, to stress the importance of the diagnosis.

Among Marxist economists, there was, obviously, a general agreement concerning the nature of the event, as a new major crisis of capitalism. The temptation was strong to diagnose the final crisis of capitalism, and quite a few did not resist. A less daring interpretation sees in the current crisis the expression of the growing contradictions of a specific stage of capitalism, neoliberalism, established at the transition between the 1970s and 1980s: "a crisis of neoliberalism". We share this viewpoint. But, again, the question must be raised of the survival of neoliberalism in the coming decades. The complexity of the issue lies in the set of mechanisms involved — real and financial, national and international — but also in the diversity of situations proper to various countries and regions of the world.

The present paper covers these issues from the viewpoint of the radical left, even more specifically, in the perspective of Marxian economics and politics. The scope of the analysis is very broad, so none of the following sections try to provide detailed investigation. Rather, what follows must be understood as an attempt at a synthesis, a brief summary of former research, and much remains to be done. In our book "The Crisis of Neoliberalism"[1], published at the beginning of 2011, a much more comprehensive analysis is provided. The present study draws considerably from the book, but new information and discussion are introduced concerning even more recent developments. To this, one must add a study devoted to alternative interpretations among economists of Marxist inspiration[2], but this discussion is not retaken here.

The outline is straightforward. Each of the three main sections focuses on one of the themes listed in the subtitle of the paper: interpretation of the crisis, recent developments, and perspectives as a way of conclusion.

1. G. Duménil, D. Lévy, *The Crisis of Neoliberalism*, Harvard: Harvard University Press (2011).
2. G. Duménil, D. Lévy, The Crisis of the early 21st century: A critical review of alternative interpretations, PSE, EconomiX, Paris (2011).

1 - General interpretation: A crisis of neoliberalism under U.S. hegemony

The presentation below moves from historical dynamics to the mechanisms that more immediately triggered the crisis. The emphasis is on the United States where the roots of the crisis can be located.

1.1 Four structural crises — two basic frameworks of analysis

Even within the field of economics, the word "crisis" is used to refer to quite distinct categories of phenomena. A traditional use is the identification of short periods of time (typically a few quarters) in which output contracts. These are the recessions of the business cycle. There is no strict repetition at given intervals, but recurrent declines. Capitalism undergoes, however, more dramatic sets of perturbations lasting a number of years, about a decade. The contraction of output is only one aspect. Real and financial developments are involved as in any recession but in dramatic proportions, as well as specific chains of events such as a crisis of competition, a major crisis of financial institutions, or a large wave of inflation. The present crisis belongs to this category.

Diagram 1

Structural crises are typical of what we call "modern capitalism", that is, capitalism after the three major revolutions — corporate, financial, and managerial — of the late 19th and early 20th centuries.

Four such crises occurred, as shown in diagram 1. The first was the crisis of the late 19th century, which manifested itself in a crisis of competition, with the formation of trusts, pools, and cartels. The second, the Great Depression, is well known. The third was the crisis of the 1970s, with the slowing down of accumulation and a wave of inflation. The fourth is the current crisis, the crisis of neoliberalism. For reasons that we are unable to explain, the periodicity of such crises is about 3 or 4 decades.

The four crises mirror basic mechanisms inherent in the historical dynamics of capitalism. Thus, they can be denoted as "structural crises". Two categories of such mechanisms must be distinguished, as shown in the arrows in the diagram. The first and third crises were caused by declining trends of the profit rate and its ensuing low values. They clearly hark back to Marx's analysis of the falling profit rate. The second and fourth crises are of a distinct nature. We use the phrase "crisis of financial hegemony", but the term "Finance" is given a specific meaning to be introduced in the following section. They relate to another aspect of the dynamics of capitalism as in the *Communist Manifesto*. There, Marx and Engels described capitalist classes as apprentice sorcerers, initiating processes — to their own benefit obviously — that, at some point, they can no longer control:

> Modern bourgeois society, with its relations of production, of exchange and of property, a society that has conjured up such gigantic means of production and of exchange, is like the sorcerer who is no longer able to control the powers of the nether world whom he has called up by his spells. For many a decade past the history of industry and commerce is but the history of the revolt of modern productive forces against modern conditions of production, against the property relations that are the conditions for the existence of the bourgeois and of its rule. It is enough to mention the commercial crises that by their periodical return put the existence of the entire bourgeois society on its trial, each time more threateningly.[3]

The current crisis is one such crisis. The two dynamics — profitability and financial hegemony — are quite distinct. Within profitability crises capitalism "sinks" while, within crises of financial hegemony, it "explodes". This is manifest in the features of each category of structural crises.

3. K. Marx, F. Engels, *Manifesto of the Communist Party*, Progress Publisher: Selected Works of Marx and Engels (1848), p. 101.

1.2 Class and international hierarchies: A crisis of financial hegemony

One important aspect of structural crises is that capitalism must undergo important transformations to find a way out. More or less radical changes are involved. For example, the crisis of the late 19th century (during the 1890s) opened immediately the way to the wave of incorporation around 1900; as is well known, the Great Depression and World War II ushered in a new period in the history of capitalism for about three decades.

Between the four structural crises, three broad periods are distinguished. Among the various aspects involved in the definition of the successive social configurations, we emphasize *class patterns* and the *relations of power among classes* (domination and compromise).

Concerning classes, the three revolutions of the late 19th and early 20th century considerably modified class patterns. There has always been intermediary classes between capitalists and workers (craftmen, shopkeepers, and the like), but the managerial revolution provoked the emergence of classes of *managerial and clerical personnel* (including commercial subordinate employees within the latter). A strong polarization occurred within these new groups with a concentration of initiative and power in the hands of managers. This led to the establishment of the new class pattern typical of modern capitalism: (1) capitalists; (2) managers; and (3) popular classes (workers and clerical-commercial employees). Another component of the set of transformations was the establishment of a new bourgeoisie at a distance of enterprises, whose ownership of the means of production was expressed in securities (bonds and shares), and whose power was embodied within the new financial institutions. We call "Finance" the upper fractions of capitalist classes and *their* financial institutions.

On such foundations, the prevalence of alternative relations of power allow for the distinction of three successive phases that we denote as "social orders":

1. *The first financial hegemony.* From the early 20th century to the Great Depression, the power of the new bourgeoisie that emerged during those years enjoyed a rather unchallenged domination. The strong class struggle (notably major strikes) that coincided with the crisis was defeated, and World War I provided favorable conditions for capitalist classes to dismantle the radical worker movement in the United States. There were elements of compromise in the new social arrangement — between capitalist classes and managers, or between

the new and old fractions of bourgeois classes, even vis-à-vis some categories of workers — but the main apect was "financial hegemony" in the above sense.

2. *The social-democratic/Keynesian compromise.* The simultaneous impacts of the New Deal, World War II, the rise of the so-called "socialist countries", and the strength of the worker movement internationally created the political conditions for the establishment of a new social order, with social-democratic components (increase purchasing powers, welfare, etc.). Keynesianism provided the foundations of new macro policies. The power and income of upper classes were significantly diminished, as corporations were managed by managers and new policies more favorable to growth and development that to the strict interests of capitalist classes were conducted. Major differences were, however, observed among countries.

There were also favorable economic conditions. Such changes would probably have been impossible or ephemeral in the absence of the new trends upward of profit rates since World War I, hidden by the Great Depression, but that materialized after World War II.

3. *The second financial hegemony in neoliberalism.* The crisis of the 1970s created the conditions for a new bout of class struggle, in which popular classes lost, and the power and income of capitalist classes were restored. A new discipline was imposed on workers and management; new policies were enacted; all the barriers to the income and wealth of capitalists were gradually lifted, as in financial deregulation and globalization (the imposition of free trade and free capital movements). All workers of the world were placed in a situation of competition. These transformations would have been impossible in the absence of the adhesion of managerial classes to the neoliberal endeavor. This latter process was rapid in the United States, slower in a country like France but, even in Japan, where this managerial aspect was very strong, neoliberalism was established (with particularly dramatic consequences in the case of Japan).

In the mid-1990s, we put forward this class interpretation of neoliberalism, now rather widespread.[4]

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4. G. Duménil, D. Lévy, "Costs and Benefits of Neoliberalism. A class analysis", *Review of International Political Economy*, 8 (2001), p. 578-607, first introduced, in French, in Dynamique du capitalisme et politiques de classe. Un siècle de capitalisme américain, Communication au colloque *Karl Marx et la dynamique actuelle du capitalisme*, Université du Littoral, Dunkerque, 18-19 octobre 1996, PSE, EconomiX, Paris (1996). See also, *Capital Resurgent. Roots of the Neoliberal Revolution*, Harvard: Harvard University Press (2004).

1.3 The inner contradictions of neoliberalism and of the U.S. trajectory

Three decades after the establishment of neoliberalism around 1980, the capitalist endeavor could be judged successful according to its own objective, the income and wealth of upper classes. But the current crisis revealed its inner contradictions.

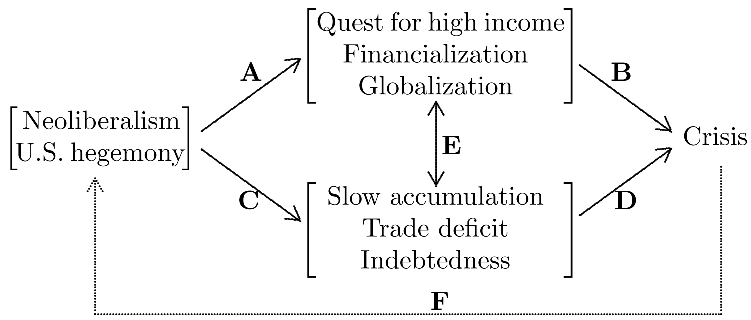


Diagram 2

Diagram 2 schematically summarizes the analysis of the dynamics that led to the crisis. The entire process begins with "Neoliberalism" in the left part of the diagram. From there, two categories of factors are emphasized:

1. In the upper part of the diagram are listed mechanisms common to all major capitalist countries around the world. First, the mention of "the quest for high income" recalls the objective of neoliberalism as stated earlier. It was the root of "financialization", the unchecked development of financial mechanisms. Financialization is a basic process inherent in capitalist dynamics. Neoliberalism opened the way to new achievements. But it is also important to note that financial mechanisms exploded after 2000, as in the rise of derivatives, asset-backed securities, collateralized debt obligations, etc. To this set of developments, one must add neoliberal "globalization", free trade and the free movements of capitals around the globe. Both trends were made possible by dramatic deregulation. Writing in section 1.1 that capitalism "explodes" in crisis of financial hegemony, we were referring to this set of developments, as capitalist classes lifted all barriers to their enrichment, and lost the control of the process.

2. The crisis of neoliberalism would have probably occurred anyhow at some point, but it came in 2007 and in the United States. This is due to the set of factors in the lower box in the diagram, proper to the U.S. economy.[5] This is where the U.S. international "hegemony" comes into play. The economy of the United States followed a trajectory of disequilibria.

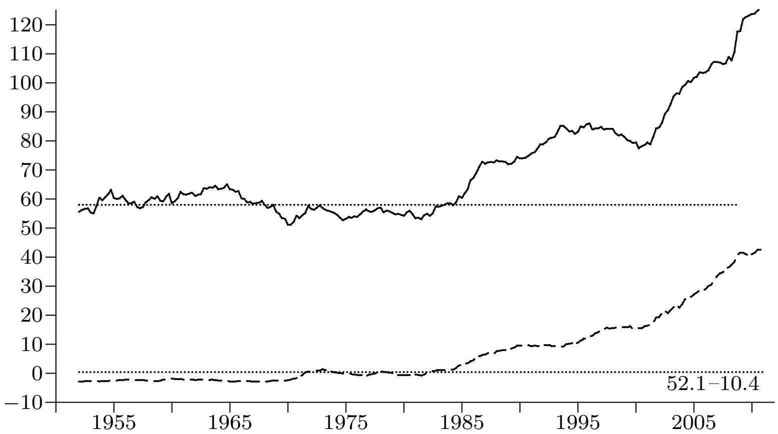
- A first feature is the slow accumulation of capital, paralleled by a boom of consumption.
- A second well-known trait is the growing deficit of U.S. foreign trade. Only the towering position of the country worldwide and the role of the dollar as international currency made the continuation of this trajectory possible during almost three decades. The growing deficit was a consequence of neoliberal globalization and the gradual decline of the technical leadership of the country, which, both, diminished the position of the U.S. economy within world competition. Year after year, more commodities were imported from countries with low labor costs such as China (16 percent of total U.S. imports prior to the crisis). But emerging countries also became more performing and, the U.S. economy (on U.S. territory) was, anyhow, confronted to the competition of countries or regions of the world like the European Union and Japan (respectively, 18 percent and 7.4 percent of U.S. total imports prior to the crisis.)
- The flows of dollars to the world resulting from the deficit of trade are mainly used to purchase U.S. securities (besides loans and deposits), such as bonds and shares. The holders of these balances can, thus, obtain an income from these holdings or, in the case of foreign direct investment, take the control U.S. corporations. Prior to the crisis the vast majority of these funds financed U.S. private corporations, primarily in the financial sector. (The shift toward government securities is typical of the current crisis.) Although stock-shares are not debts, one can refer to this foreign financing of the U.S. economy as an "external (or foreign) debt".
- These increasing imports from the rest of the world, boosted by domestic very strong demand levels in the United States, impact negatively the fraction of this demand directed toward producers still located on U.S. territory. This decline renders necessary

5. There are some common aspects in the economy of the United Kingdom, but much less advanced.

the stimulation of demand (already strong) and a growing share of this stimulation benefits the economies from which the goods are imported. The consequence, prior to the crisis, was the rising debt of households (as government deficits were kept under control).

- Thus, the upward trends of the debts of households and of the external debt are the two sides of a same coin. As shown in Figure 1, they rose in tandem.

Figure 1 Net debts: U.S. households and Government considered jointly, and the U.S. economy toward the rest of the world (percent of U.S. GDP).



Households *plus* Government net debt: (——)
U.S. net debt toward the rest of the world: (— —)

The variables are debts in credit market instruments. *Net* debts means debts minus financial assets.

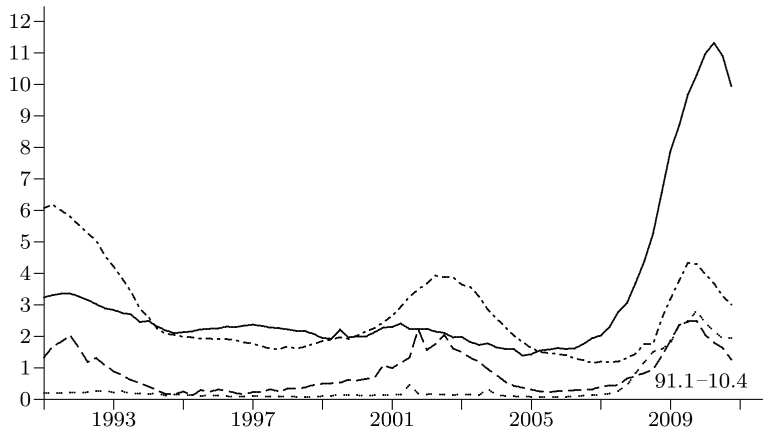
3. In the vertical arrow E, diagram 2 emphasizes the reciprocal interaction between the two sets of factors. For example, the rise of the debt of households would have been impossible in the absence of the securitization of this debt and the sale of about half of it to the rest of the world[6] (as in financialization and globalization, in the upper part of the diagram).

6. An important component of the financing of the private financial sector in the United States by the rest of the world, as mentioned earlier.

The crisis was the outcome of the convergence of these two sets of developments. The increasingly fragile financial structure was destabilized by the crash of the mortgage wave, which had made possible the continuation of this finally unsustainable trajectory.

1.4 How the mortgage crash triggered the crisis

Figure 2 Delinquencies and charge-offs on residential loans, and commercial and industrial loans: U.S. commercial banks (percent of loans outstanding).



Delinquency rate, Residential: (——)
Delinquency rate, Commercial and industrial loans: (-—-—)
Charge-off rate, Residential: (-----)
Charge-off rate, Commercial and industrial loans: (— —)

The variables are quarterly annualized rates.

As contended in the previous section, the mortgage wave was not the outcome of a mistake in the conduct of monetary policy. Given the general context of neoliberalism (the refusal to question more basic trends and institutions, notably the refusal to regulate), the mortgage wave was allowed to grow to support the domestic macroeconomy. When the recovery from the 2000/1 recession was obtained (in 2004), Alan Greenspan increased the Federal Funds rate to pre-crisis levels, but the housing boom was not tamed. Anyhow, a decline in lendings would have caused a new fall of output. In this respect, the crisis of 2000/1 was a rehearsal of the current crisis. In the context of financial globalization, long-term interest rates tend to be determined "globally" rather than in each particular country, and the Federal Reserve lost the control of these interest rates, an object of complaint on the part of Greenspan. Despite the policy of the Federal Reserve, the mortage wave continued its hike, supported by lax borrowing requirements and daring securitization, notably by private-label issuers. Subprime and "Alt-A" loans were inflated to unprecedented levels.

During the first months of 2006, the first steps in the wave of delinquencies were observed. Contrary to the pattern of events typical of more "standard" recessions, this process did not come from commercial and industrial loans, but from the mortgages of households. It rapidly reached dramatic proportions, as illustrated in Figure 2. This development triggered the collapse of the financial system. In September-October 2008, in a process of reciprocal interaction, the financial and real economies were destabilized, and the crisis was exported to the rest of the world.

2 - Recent developments within advanced capitalist economies Is the crisis over?

This section discusses the recent developments within the United States and Europe.

2.1 The United States

As should be clear from section 1, the situation in the United States will not be solved in the near future. Financial regulation — assuming that the Obama Administration will be able to implement it, which is far from being obvious — would not remedy the disequilibria proper to the macro trajectory of the U.S. economy. One important aspect is the deficit of foreign trade and its indirect relationship to the growth of the domestic debt — the debt of households prior to the crisis and government debt after. Finding a way out in the context of neoliberal globalization will be very difficult. Many in the United States, including President Obama, dream of a boom of "green" technologies, reminiscent of the boom of information and communication technologies during the second half of the 1990s. But nothing guarantees that the miracle will happen and, if it does, it might remain ephemeral given the competition from challengers in the rest of the global economy.

In the short run, the nature of what we observe now in the United States is the management of an *emergency situation*, to which the two following sections are devoted.

2.1.1 Supporting the economy

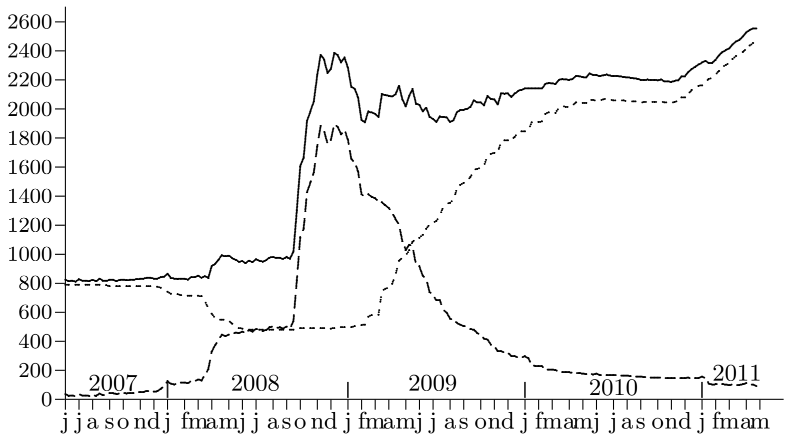
The straightforward observation of GDP in the United States reveals the familiar pattern of letter "U" (rather that "V"), downward and then upward. The pre-crisis maximum level was reached in the fourth quarter of 2007, and, as of the fourth quarter of 2010, the U.S. real GDP is slightly above this peak. (The NBER locates the contraction of output between the fourth quarter of 2007 and the second quarter of 2009.)

It is important to emphasize that the "recovery" (moving up) was only obtained at the cost of dramatic policies on the part of the government and the Federal Reserve, respectively, very large deficits and the support of financial institutions. The deficit of the budget and the rise of the government debt are well-known facts. We consider below the action of the Federal Reserve.

Figure 3 shows the total credits (loans and securities, ——) of the Federal Reserve to the economy. One can first observe the sharp increase in these credits in September-October 2008 when the situation suddenly worsened. But the aspect relevant to the present discussion is the continuation of the total support to 2556 billion dollars in April 2011, given the final new trend upward. To date, *there was no relaxation*.

The two components of total credits are distinguished in the figure, loans (— —) and securities held (-----). "Loans" refer the direct lending to financial institutions (and foreign central banks). Concerning "Securities", the Federal Reserve purchased massive amounts of the bonds resulting from the securitization of the mortgage debt (issued by Government sponsored enterprises, such as Fannie Mae).

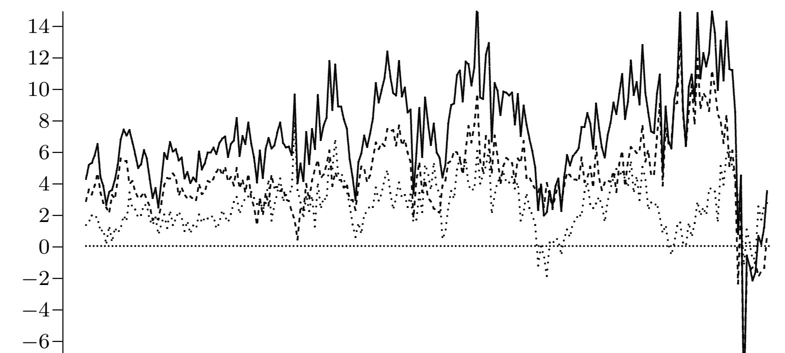
Figure 3 Total credits by the Federal Reserve (billions of dollars, weekly)



Total credits: (——)
Loans to the financial sector: (— —)
Securities held: (-----)

Credits are the sum of loans and securities.

Figure 4 New loans to households and nonfinancial corporations: U.S. economy (percent of GDP).



Households *plus* Nonfinancial corporations: (——)
Households: (-----)
Nonfinancial corporations: (·········)

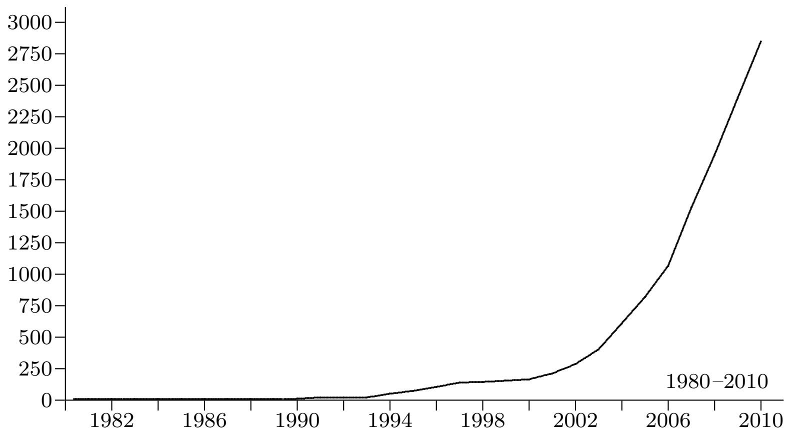
Between November 2009 and December 2010, this was the main component of these holdings. The figure shows that, within the approximately constant total during the year 2009, one form of support, securities, was substituted for the other, loans.

The function of the financial sector is to make loans to nonfinancial agents. Given the dramatic loans to private financial institutions in 200 and 2009 and the purchases of securities by the Federal Reserve, one could expect to observe that the financial sector recovered a more normal functioning. Figure 4 shows the flows of new loans to the nongovernment-nonfinancial economy by financial institutions. The spectacular decline during the current crisis is known as the "credit crunch". The important point here is the fact that, in the last observations in the figure, the financial sector hardly began to lend, only for very limited amounts. In particular, on can notice that enterprises' borrowing began to modestly rise, while the net loans (new loans minus loans paid back) to households remain almost null. (The flow of mortgages is still negative.)

2.1.2 Quantitative easing

It very hard to imagine a new wave of borrowing on the part of U.S. households, since the debt of households remains very high. (It only diminished slightly since the beginning of the crisis, by less than 4 percent of its maximum value between the third quarter of 2008 and the fourth quarter of 2010.) Thus, almost all new borrowing originates in the deficit of the government. The question must, therefore, be raised of who is lending to the government. The traditional answer is, in the United States, households, private financial institutions, the Federal Reserve, government pension funds, etc., and the rest the world. But, since the late 1990s, the share of the rest of the world in the total holding of Treasury securities grew considerably, to about 50 percent. As is well known, countries with large surpluses of foreign trade buy large flows of U.S. Treasury securities. Besides Japan, reference is made to China's foreign currency reserves. Figure 5 shows the dramatic rise of the reserves of China outstanding. They increased by 500 billion dollars in 2010. Of this total amount, only 26 percent are held in euros (about 6 per cent of the total government debt of the euro area). Estimates show that China holds about 10 per cent of U.S. Treasury securities and still large amounts of securities issued by Fannie Mae and Freddy Mac.

Figure 5 Foreign currency reserves (billions of dollars): China



How long will these trends be maintained? The pending threat is all the too obvious.

The relationship must be established here with the new policy on the part of the Federal Reserve, known as "quantitative easing". Traditionally, the Federal Reserve used to hold a certain amount (which culminated at 800 billion dollars prior to the crisis) in Treasury securities. During the crisis, this amount was considerably diminished and then restored. This is shown in Figure 6. The new development is, however, that, during the last months of 2010, the Federal Reserve began to buy Treasury securities massively, and a new trend upward is observed in the holdings. The first variable (——) in Figure 7 is the *variation* in the total stock of Treasury securities (excluding intragovernmental holdings) since November 2010. The second variable (-----) is the variation of the stock of Treasury securities held by the Federal Reserve. One can observe that the purchases by the Federal Reserve covered the entire new flows of borrowing from the government since November 2010.

The information provided in this section clearly illustrates what has been denoted earlier as the management of an "emergency situation". The United States are now acting dramatically in order to avoid a crisis of the dollar, that is, a sudden collapse of its rate of exchange. It is hard to tell whether the Republicans will actually attempt to cut government spendings to considerable extents under

Figure 6 Treasury securities held by the Federal Reserve (billions of dollars)

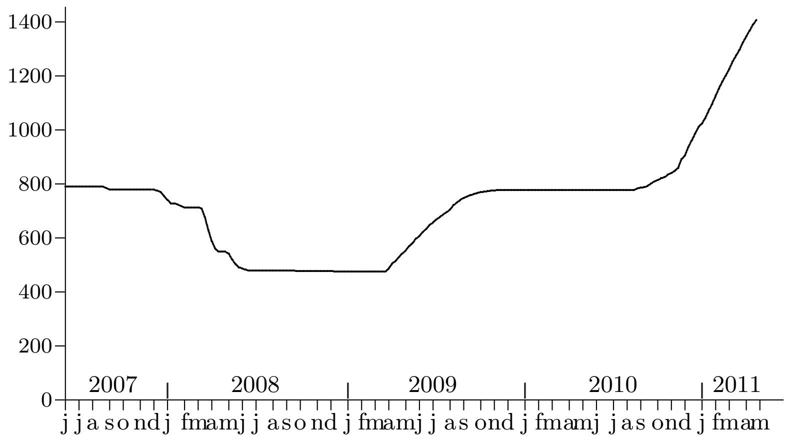
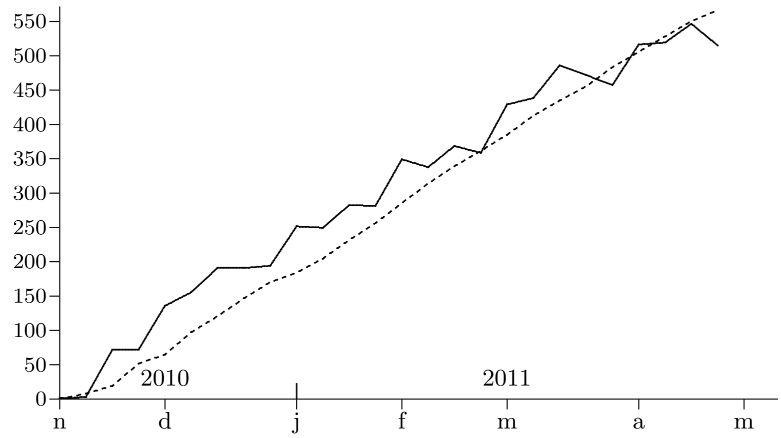


Figure 7 U.S. Treasury securities (billions of dollars): Variations of amounts outstanding since November 2010



Total debt (excluding intragovernmental holdings): (——)
Debt held by the Federal Reserve: (-----)

present circumstances, but it is easy to predict that, if they did, this new policy would not be continued, given the ensuing consequences. As of April 14, the Republicans have agreed to finance government expenses for the subsequent six months, with a “symbolic” cut of 38 billion dollars in expenses to be compared to the almost 10000 billion dollars government debt!)

Overall, the data in this section and the previous fully confirms the earlier diagnosis. The present limited recovery in U.S. GDP has only been prolonged at the cost of a twofold dramatic support, in a first phase, the all-out lending to U.S. financial institutions and foreign central banks from the Federal Reserve and, in a second phase, the large deficit of the goverment also financed by the Federal Reserve. No real autonomous growth trends have yet been established (despite a slight movement upward).

A new important factor must be mentioned here concerning the management of the U.S. macroeconomy and the exchange rate of the dollar. When the crisis began, one could have imagined that the euro could work as a substitute world currency instead of the dollar. But the euro area is now facing significant difficulties in various countries and reference is even often made to an alleged “crisis of the euro”.

2.2 Europe

The first section below briefly recalls a number of straightforward features of the euro area. A second section is devoted to the crisis in various countries, notably Greece.

2.2.1 Hasty integration — Persisting heterogeneity — Deficient and misled governance

A well documented analysis of European integration in the European Union — specifically within the euro area — lies beyond the limits of the present study. The objective here is to summarize a number of basic traits.

We recall that the origins of the European Union must be traced to the 1950s. The Single European Act was signed in 1986/7 and the Maastricht Treaty in 1992/3 (creating the Union under its present name). Among the 27 member countries, a number of Eastern European countries were integrated after 2000. The euro area proper was created in 1999, now formed of 17 countries.

In the original project, the idea was the interconnection of countries with comparable levels of development, with an emphasis on policies aiming at the harmonization of the various economies. The objective was the construction of a common market (free trade within the area). This perspective was abandoned. From the 1980s onward, European integration was deeply determined by the new neoliberal trends worldwide, notably the limited government intervention as compared to the first decades after World War II, free trade, and the free movements of capitals. Observing that many much less developed countries were gradually integrated, one can contend that the European Union and the euro area moved in the directions opened by neoliberal globalization — placing the workers of the world in a situation of competition, to the benefit of capitalist classes. There was no attempt at creating a zone concerning financial mechanisms similar to the common market, with free movements of capital *within* the zone but limited vis-à-vis the rest of the world. The specifically European endeavor was dissolved within neoliberal globalization, real and financial. But a monetary zone was, indeed, established in 1999. (Setting aside the later entrance into the euro area of countries of Eastern Europe[7], Greece joined in 2001.)

Given the above circumtances, there is no surprise in the discovery that important problems are met, in particular, in the turmoil created by the present crisis. Many examples can be given. Entering into the euro area implies loosing a traditional lever in the conduct of macro policies. A rate of exchange of the euro in line with German competitive levels does not necessarily match the needs of Greece or Portugal. To this first aspect, one can add that the "Maastricht criterion" limiting government deficits to a maximum of 3 percent of GDP is certainly not appropriate in any economic situation, notably under crisis circumstances. One must also observe that "tax dumping" as in Ireland can only pose major problems. Finally, it appears retrospectively that there was no form of central supervision of credit policies, as became evident in Spain.

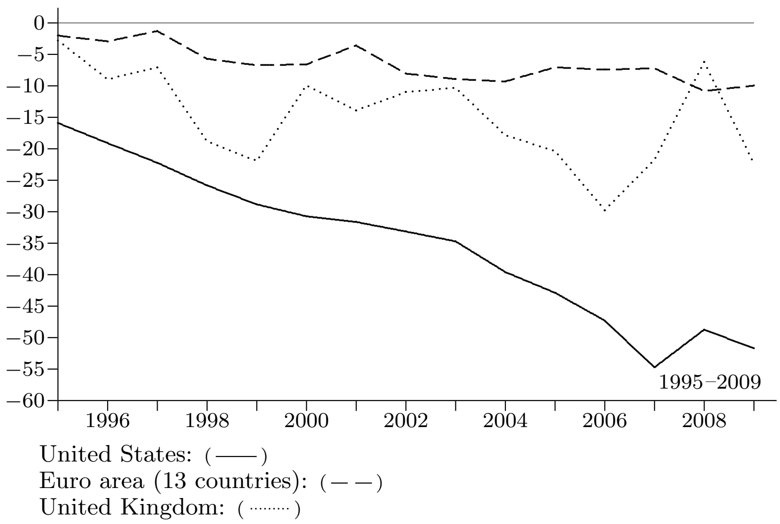
As could be expected, the crisis revealed these weaknesses. The rules were inadequate, European policies deficient and 100 percent neoliberal, and no institutions and mechanisms had been devised to handle major crisis circumstances. The difficulties presently met testify to the dramatic lack of general governance in the Union.

7. Slovakia, Slovenia, and Estonia.

2.2.2 National trajectories and the euro

Within Europe in a broad definition, there is nothing that can compare to the trajectory of the U.S. macroeconomy. (The United Kingdom is an exception, but the disequilibria in this country are much more limited than in the United States.) The euro area, when considered globally, did not experience such cumulative disequilibria. This is shown in Figure 8. The variables are the net foreign assets held in each country or region. "Net" refers to the difference between foreign assets held and the assets of the country held by foreign countries. (As explained in section 1.3, these "net debts" toward the rest of the world result mainly from the deficit of foreign trade.) The foreign debt of the euro area remains quite limited. Thus, abstracting from the specific configurations prevailing in the various countries, there is no such structural problem in the area, and no pending crisis of the euro.

Figure 8 Net foreign assets held by the United States, the euro area, and the United Kingdom (percent of the GDP of each unit).



The current crisis created, however, important difficulties within a number of European countries. All countries underwent important government deficits, including Germany. The famous 3 percent Maastritcht rule blew to smithereen. Within the neoliberal framework, and with the exception of the present-days U.S. economy, deficits are supposed to be financed by households and financial institutions in the country and around the globe. The collective action of financial institution is imputed to the so-called "markets". What markets in this definition specifically do not like is the simultaneous existence of government deficits and deficits of foreign trade. In various countries the two deficits coexist. (A country like Japan typically runs a very large government deficit but holds an also large surplus of trade.)

The case of Greece is well known. Figure 9 shows the two deficits in this country. The deficit of the government (——) is structural since, at least, 1980. (An important fraction of this deficit must be related to the large real interest rates to 2000 as shown in the "primary lending/borrowing" ·········, in which interest paid are subtracted from expenses.) The deficit reached almost 15 percent of GDP in 1990, and was reduced to about 4 per cent in 1999 and 2006. But it again increased dramatically with the current crisis, though not more than in many other countries. Simultaneously, the foreign trade of Greece was almost balanced in 1994, but the deficit of trade rose after the entrance of Greece into the euro area and reached more than 14 percent in 2007 and 2008, in the current crisis. There is a temptation in Greece to leave the euro and enjoy the benefits of a devalued currency, that is, to recover the lost "lever" in the conduct of macro policies.

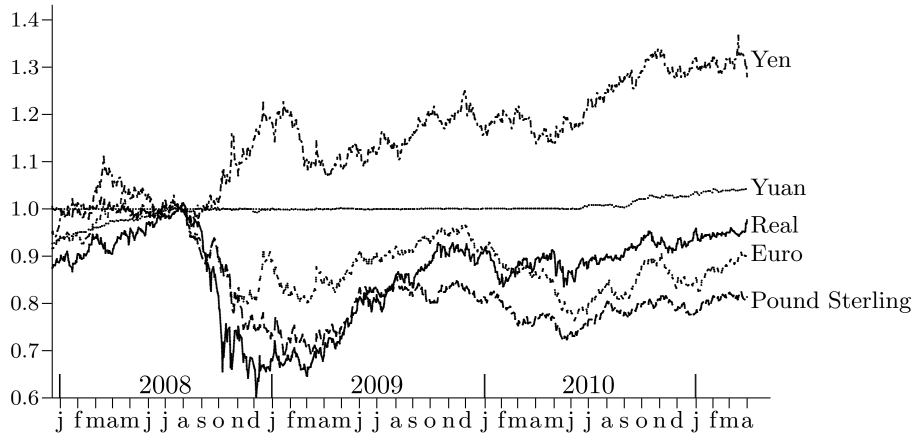
In the assessment of these perturbations, it is important to consider the movements of exchange rates from some distance. As shown in Figure 10, the current crisis had puzzling effects on the relative values of exchange rates. The most dramatic impact was the comparative increase in the exchange rate of the yen against the dollar from the last months of 2008. Second, both the euro and the pound were devalued against the two currencies, the yen and the dollar. (Greece could dream of an even larger devaluation of its currency after leaving the euro and, more specifically, a devaluation against the euro itself.)

Concerning specifically the euro, one can notice that the pound was even more devalued. The figure also shows that the problems within a number of countries of the euro area did not materialize in further devaluations of the euro, neither against the dollar nor the pound, since the beginning of 2011, the euro has been consistently rising. The reference to a "crisis of the euro" appears highly questionable.

Figure 9 Government deficit and the deficit of foreign trade (percentage of GDP): The Greek economy

General government net lending/borrowing: (——)
General government primary net lending/borrowing: (-----)
Current account balance: (·········)

Figure 10 Exchange rates against the dollar: Brazilian real, Chinese yuan, Euro, Japanese yen, English pound



All rates have been normalized to 1 on July 24, 2008.

The big issue is the new pattern of exchange rates during the current crisis. It is not too surprising that the crisis of neoliberalism caused a currency warfare. In a world of "free trade", the only protection a country can expect within international competition is the low value of its exchange rate, as clearly exemplified by the rate of exchange of the yuan. One should, however, also be aware that the variations of exchange rates are strongly impacted by financial flows. This is in no way specific to the current crisis, but the crisis provides a new dramatic illustration of the potential impact of these mechanisms. Most likely, the sudden transformation of relative exchange rates in 2008 was the manifestation of sudden financial movements caused by the crisis. How long will the new situation be prolonged is difficult to tell. The discussion of these developments lies, however, beyond the ambition of the present study.

To conclude concerning the euro area, the euro will survive the present perturbations, even if a few countries leave the euro area. But these countries should not expect any miracle. In the mean time, all restrictive policies intending to the limitation of government deficits in Europe jeopardize the chances of recovery in Europe. The U.S. quantitative easing is probably the only way out even if markets (capitalist classes and their financial institutions) lose one of their favorite instruments in the practice of their power worldwide. In terms of growth, the performances of the U.S. macroeconomy are slightly superior to those of Europe.

3 - Perspectives: Variegatied diagnoses

If, in the analysis of the contemporary crisis, it is logical to focus on the situation of the U.S. economy, the same is not true of the discussion of the perspectives now opened to the world. What happened and presently happens within the United States will play an important role in the coming decades, but the future of the world will not be determined only within this region of the world.

3.1 The old world

As contended in the previous sections, the economic and political circumstances are quite distinct in the United States and Europe. Structurally, the situation in Europe is much less severe than in the United States, given the disequilibria of the U.S. economy. But the capability of the European Union to react to crisis circumstances is much less developed.

Much likely the neoliberal social order will be continued in Europe. Economic performances there will remain rather poor in the context of neoliberal globalization. Contrary to what is often contended, there is no economic miracle in Germany, despite the capability of the country to export. (In the last twenty years, rates of growth have not been larger in Germany than, for example, in France.[8]) Given the features of the European Union described earlier, it is difficult to expect an increased and more efficient central governance.

The only alternative option would be a strong popular movement susceptible of reverting the alliance at the top of social hierarchies between capitalist classes and managerial classes of the private sector and government sector. Neoliberal propaganda is very efficient ("There is no alternative"), and the death of utopia do not leave opened any clear perspective. One must, however, observe that the most shocking excesses of upper classes and the gradually more obvious collusion between these classes and governments now point more clearly to the class nature of these societies. In addition, one must mention the increasing degrees of consciousness of the risks inherent in the present technological trends with respect to the protection of the globe.

Most of what has just been said can be repeated concerning the United States, but the situation there is rather distinct in other respects. There are two prominent aspects to this difference. On the one hand, the situation of the country will be much harder to manage during the coming decades. It is difficult to imagine how U.S. disequilibria will be curbed. As was explained, this defines, however, an absolute requirement. Now, it is not because the problem is there, that the solution will be found.

To this, one must add that, contrary to the situation in Europe, the U.S. federal government is powerful and probably more committed to the interests of the nation than central European institutions.

8. http://www.jourdan.ens.fr/levy/dle2010d.htm

There is, in the United States, a very strong national feeling, what we denote as the "national factor". It will be hard for the country to accept the decline of its international hegemony, now under way at high speed. The United States has proven in the past, as during the two World Wars and the New Deal, that it possesses a high capability to react. But the risk is obvious that the national feeling yield in front of nationalist trends. What will happen in the United States will, however, also depend to a large extent on the trajectories of emerging countries and new challengers.

3.2 Emerging and developing countries

A first observation is the much faster growth of emerging and developing countries in comparison to advanced economies after 2000. This is illustrated in Figures 11 and 12. (The data are from the IMF.) The first figure shows the growth rates of GDP in emerging and developing countries, in the European Union, and in the United States. Since the year 2000, the growth rates in the European Union and in the United States are similar. But, the striking phenomena is the rapid growth of emerging and developing countries after 2000. A new pattern has clearly been established. The growth rates within these latter countries was dramatic between 2000 and 2007, and new high rates are again reached in the wake of the crisis. Figures 12 shows the shares in world GDP, using purchasing power parity exchange rates, of the GDPs of emerging and developing countries, on the one hand, and advanced economies, on the other hand. In the projections by the IMF, the two curves cross in 2013.

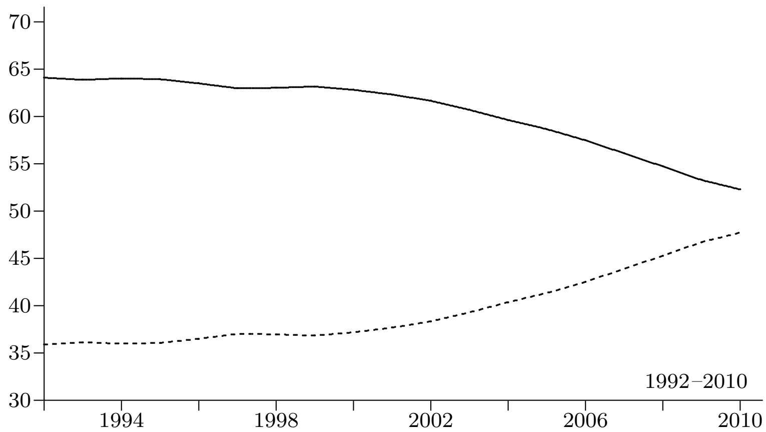
Many distinct situations are, however, observed around the globe, often depending on the degrees and forms of integration within neoliberal globalization. One can compare, for example, countries like Mexico and Brazil. The former is linked to the United States by the 1994 treaty (the North American Free Trade Agreement). Besides the crisis in 1994, which disarticulated the Mexican society, the performances of the country are specifically poor. No favorable dynamics were created by the *maquiladora*. The economy of the country is now tightly articulated to the U.S. economy, and its fate will mirror the situation there, which we can expect to be specifically bad. To the contrary, Brazil preserved its economy, with a lower degree of integration in the world economy. In the recent years, the country performed comparatively well.

Figure 11 Growth rates of GDP in various regions of the world

U.S.: (——)
European union: (-----)
Emerging and developing economies: (·········)

[**Europe**]

Figure 12 Shares of gross domestic product based on purchasing-power-parity (PPP) exchange rates (percent of world total GDP).



Advanced economies: (——)
Emerging and developing economies: (-----)

The eyes are, however, on countries like India and, in particular, China. The question there is whether this latter country will be able to maintain its growth trends, even at diminished rates, and the final nature of the society to be built there. One must keep, in particular, in mind the experience of the Japanese economy. To 1993, the growth of Japan was rapid, and its financial sector was seen by many economists as gradually moving toward global dominance. The outcome was, however, quite distinct.

3.3 Likelyhood and uncertainty

Forcasting the future trajectory of the world economy and its political implications is obviously a perilous endeavour. The economic foundations of the hegemony of the United States are clearly on the decline, and the eyes of all are now on the rising power of emerging countries. Will the world evolve toward a more multipolar configuration of powers or a new bipolar configuration (North Atlantic vs. Asia)? What would be the role of Europe?

The diagnosis in the previous sections echoes this widelyheld assessment of contemporary trends. It also stresses, however, the large uncertainty surrounding such developments. Will the consciousness of the rapid decline of the hegemony of the United States in this country create the political conditions favorable to a rebound? Will China be able to maintain its growth trajectory despite the rising power of social forces favorable to neoliberal trends and the emergence of a stronger popular movement?

Contents