GLOBALISATION AND THE GREAT CRISIS

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Introduction

In this chapter I intend to scrutinize the present crisis by putting it in relation with some aspects of globalization and with the economic policies of the main countries that govern it. The liberalization of international markets has enabled some developing countries to exploit the competitive advantages of low labour costs to set off intense processes of growth and accumulate huge reserves of Dollar assets. In the advanced countries it has induced a slowing down of domestic investments and labour demand besides an increase in the immigrant labour supply, and underpinned a lengthy process of income redistribution from wages to profits.

National governments have reacted in different ways. It is possible to single out three different policy schemes, which I will call respectively the 'China scheme', the 'Germany scheme' and the 'US scheme'. The first was adopted by various emerging countries to sustain processes of *export-led growth*. The second was implemented by some countries in the Euro area and by Japan to set up a process of *restrained growth* which served to launch their currencies as international reserve instruments and to weaken the workers' bargaining power. The third was

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implemented by the US administration to promote a process of *debt-led growth*. The high rate of GDP growth attained by the American economy in the last fifteen years served to achieve two goals: on the one hand, the funding of military expenditure required to play the role of global sheriff; on the other, the maintaining of a high trade deficit through which the United States have performed the functions of global accumulation engine and world banker. But the debt-led growth process was the main responsible for the present crisis

Five instability factors

The speculative bubble dates from 1999 to 2005. An important factor underlying its escalation was the *low interest rates* policy implemented by the Fed, a policy that was also favoured by international financial markets. In this period the American economy enjoyed a growing money supply, partly due to investments made by China and by other emerging countries, who used their currency reserves to buy Dollar assets. Moreover the banks' credit expansion favoured a lowering of interest rates.

Another important factor was the US administration's *budget deficit* policy, which was required especially to sustain military expenditure (Bellofiore, 2009; Perelstein, 2009). The deficit promoted GDP growth and, at the same time, pumped the money supply. It gave rise to a growth in consumption and imports, and an outflow of money abroad. Then, however, the money created by American banks flowed back to the States through foreign portfolio investments.

A third important factor concerns the emergence of the *broad bank*. In 1999, in completing a banking deregulation process started in the 1980s, the Glass-Steagall Act was abrogated. A new kind of banking intermediary came into being, known as the broad or universal bank, which can borrow short-term and invest long-term, thus assuming a highly risky balance structure. In addition financial globalization induced many banks to overcome national boundaries and expand their business on a worldwide scale (Barth et al. 2000). Nowadays the difference between commercial and investment intermediaries is not so clear cut, although it is true that small-size, local banks tend to behave more like commercial banks whereas international concerns operate more as investment banks.

Abolition of the Glass-Steagall Act was part of a deregulation process, justified ideologically by contemporary neoliberal thought (Wade, 2008), that involved all markets and all countries in the world in varying degrees. In the United States it was prompted by specific policy provisions. Here are some of the most relevant:

- In 1999 Bill Clinton signed the *Gramm-Leach-Bliley Act*, which led to removal of the Glass-Steagall Act and reduced controls on investment banks.
- In 2000 the *Commodity Futures Modernization Act* was passed, which deregulated the markets for derivatives.
- In 2002 George W. Bush passed a plan intended to achieve a widespread aspiration of the Americans: everybody should have his own house. To this end the plan envisaged the possibility of granting loans with no controls and documentation, even to low-income earners.
- In 2004 the SEC drastically reduced the supervision and regulation of stock exchanges and financial intermediaries.
- In 2004-5 American multi-State banks were gradually exempted from the norms on predatory credit. Low-doc loans proliferated.

Deregulation favoured the emergence of a fourth factor of the bubble: the growth of a wide sector of *non-bank and quasi-bank financial intermediaries*, pension funds, mortgage brokers, hedge funds, financial insurers, and especially conduits like Special Purpose Entities (SPE), Special Purpose Vehicles (SPV) and Structured Investment Vehicles (SIV). A 'shadow banking system' has developed which operates in financial markets without being subjected to the safety requirements and constraints typical of banks. Quasi-banks intermediaries are able to expand their assets with highly risky investments, to raise funds without resorting to deposit collection, and to elude central bank supervision. By interacting with each other and with the banks, they have played a key role in the growth of securitization and other complex financial innovations that sustained the expansion of derivative markets which are poorly regulated and scarcely transparent (Fornasari, 2009).

A fifth bubble factor concerns the regulation of international banking. In 1988 the *Basel I Accords* were signed. They were considered necessary to tackle regulation problems caused by the emergence of broad banking in global markets. The Accords established various safety requirements to be observed by banks. The most important constraint required banks to keep an 8% ratio between capital and risk-weighted assets. In practice Basel I Accords worked perversely, as they induced banks to find various ways of getting round the agreements (Chick, 2009) and to develop financial innovations which helped feeding speculation and excessive indebtedness with an escalation of riskiness. The banks ability to circumvent Basel I strictures was exalted by the deregulation of finance.

The bubble

By considering the combination of these factors it is possible to understand the role played by the banking and financial system in the bubble escalation. When banks expand their assets by granting loans, the money supply increases endogenously (Screpanti, 1997). During a speculative bubble, banks tend to expand their loans and financial investments more than their reserves. In this way they contribute to nourishing the bubble, not only because they directly inflate the demand for long term assets, but also because they provide credit for speculators. By the same token, they help raise overall indebtedness. In fact in a speculative bubble many are willing to add to their indebtedness (Kregel, 2008) to finance growing investments in long term assets.

American banks found it convenient to expand loans especially in view of the profits collected in fees and commissions. They were not motivated so much by the borrowers' interest payments, for they tended to avoid keeping many loan assets on their balance sheet. For this purpose they created off-balance-sheet affiliates like conduits, to which they handed over their loans. In this way they killed two birds with one stone, as they managed to achieve a capital requirement of around 8%, at the same time unloading part of their most risky assets. Conduits were the main securitization vehicles. They obtained from the banks various kinds of loans embodying different degrees of risk; then they pooled them as assets to serve as collateral against securities which, in turn, they resold on the market. Most of these new securities were backed by mortgages securing the original loans. Pooling was devised to reduce riskiness, with the result, however, that toxic, subprime and Alt-A assets were concealed in the derivative securities. The latter were bought in part directly by the banks and in part by other intermediaries, like SIVs. These raised their funds by issuing short-term asset-backed commercial paper, medium-term investment notes and other derivatives resulting from pooling of those they had bought from first degree conduits. By this system, known as 'originate and distribute', banks believed they could reduce their exposure by spreading risks over a great number of speculators.

Nowadays the job of risk evaluation is carried out by rating agencies, which estimate securities by means of mathematical models measuring risk in terms of probability of default. Probabilities are determined on the ground of default events occurring in the recent past. Therefore there is a tendency to value the riskiness of any kind of asset as low during a bubble, when values are on the increase and default episodes are sporadic. In this way rating agencies (quite independently of any subjective interest in favouring clients whose securities they evaluate) tend objectively to feed and help to self-realize extrapolative expectations (Kregel, 2008; Nesvetailova, 2008).

During the bubble average indebtedness tended to rise in households, in companies and in the financial sector. Debt escalation was underpinned by a process of asset and financial inflation, since people are more inclined to borrow extensively when their wealth is on the increase. The demand for assets was fed by self-realizing optimistic expectations which involved the banking system itself. Banks in fact tended to grant an increasing quantity of loans expecting markets to easily absorb the derivatives resulting from securitization of their risky assets. Thus they furnished the system with the money required to buy an increasing quantity of derivatives and assets of all kinds.

Together with this process of self-realization of speculative expectations in financial markets, there was another which involved the real economy. An increasing number of households bought houses expecting their prices to increase. Thus house prices rose. Residential real estate prices doubled in the United States from 1999 to 2005. Moreover financial and real asset inflation triggered a *wealth effect* that induced consumers to increase expenditure.

The crash

A bubble cannot go on inflating indefinitely, for the simple reason that everybody expects it to explode sooner or later. Rational and well-informed 'smart' speculators know it before everyone else. They know that the risk of a financial crash rises: 1) with the passing of time from the beginning of the bubble; 2) with the degree of average indebtedness; 3) with the value of assets, as the greater their distance from the fundamentals the higher is the probability of returning to them; 4) with financial leverage which, especially in banks, lowers safety ratios.

It is not possible to single out a precise date for the start of the crisis. There was a transition phase, with a slow-down from 2004 to 2007. In those years the Fed manoeuvred a rise in interest rates, increasing the discount rate several times and bringing it from 1% to 6.25%. Towards the end of 2004 the rate of increase in house prices began to slow down, becoming negative at the end of 2006. However in 2006 there was a boom of securitization. The banks reacted to interest rate increases by offering low-doc and no-doc loans. Moreover they launched teaser rates loans, i.e. loans with a zero or very low interest rate for the first 2-3 years and high and floating rates for successive years. Many customers fell for the bait, confident that house prices would increase within 2-3 years, so that they could resell them with a capital gain or obtain a new mortgage-backed soft loan. In this period there was an increase in the number of NINJA borrowers. Yet some hedge funds began to sell their riskiest derivatives. The bubble started to deflate.

From 2007 to 2008 there was a growth in delinquency rates and a boom of property distraints. Banks tried to make up for loan defaults through distress sales of mortgaged houses, whose prices, though, were decreasing. There were runs on banks. Some hedge funds suffered heavy losses. Rating agencies began to downgrade derivatives, as their evaluation models showed that default risks were rising.

Now let's return to Basel. I observed that the 8% capital requirement established in Basel I Accords encouraged banks to create conduits and push ahead with securitization. To remedy some of the drawbacks in those agreements a new round of Accords was set up in 2004 and updated several times until 2008, when they were implemented in many countries. Basel II Accords, among other things, endeavoured to reinforce and break down capital requirements by taking various kinds of risk into account.[1] In addition they established that banks should exert some sort of self-surveillance, and that the evaluation of market risks should be undertaken by the banks themselves based on actual market prices. By some bad stroke of fate, the Accords were implemented in the US and EU in 2008, precisely in the crisis year. At this point the precautionary motives imposed by Basel II were added to those dictated by the crisis itself. The banks were obliged to substantially raise provisions

[1] In the first round only credit risk was taken into account. With Basel II three other kinds of risk were considered: operational risk, market risk and interest rate risk. Capital and reserve requirements were established for the different kinds of risk.

for reserves and reduce risky asset holdings, as laid down in the Accords. Moreover, by evaluating assets in a crisis situation, on the one hand they attributed to them increasing risks and weights while, on the other, they recorded them at decreasing prices.[2] For this reason they were induced to heavily restrict credit supply. In other words, Basel I and II worked in a perverse way (Balin, 2009): the former fed the bubble, the latter exacerbated the crisis.

The stock exchange crash of September – October 2008 was the final event of a financial turmoil that began two years earlier. It was also the beginning of a transmission process that spread the crisis from the United States to the rest of the world and from financial markets to real economies.

During the crash most dealers tried to raise safety margins, reduce financial leverage and increase liquid balances. The Banks did the same, thus reducing credit supply. The money supply dwindled just when expansion was needed to pay off debts. It became difficult to honour overdue amounts. A debt deflation process was set in motion[3]. Borrowers had to reimburse their debts in a period of credit crunch. Many were compelled to sell assets when their values were falling, thus contributing to intensify their collapse. As a consequence, debt defaults increased and many firms went bankrupt.

The monetary authorities tried to put a halt to the crash and rescue banks from bankruptcy by nationalizing some of them and expanding the money base supply. The economies, however, got caught up in a *liquidity trap*. Since banks tended to reduce their loans and investments, while trying to accumulate liquid reserves, the

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[2] *Fair value* accounting requires assets to be recorded at market prices or at prices that realistically reflect market movements. Therefore it tends to cause pro-cyclical changes in balance assets, thus worsening the banks' financial conditions during a crisis (Wallison, 2008; Fratianni and Marchionne, 2009).

[3] A satisfying theory was put forward by Irving Fisher (1933) and then developed in various models. Quite interesting those of Kindleberger (1978) and Minsky (1982; 1986). For a survey see Berger and Udell (2004). Minsky's theory of financial instability has now become rather popular, as the present crisis has been hailed as a 'Minsky's moment' even in newspapers. Appealing Minskyan explanations are provided by Whalen (2007), Wray (2008), Bellofiore (2009), Ferri and Variato (2009), Vercelli (2009). However Kregel (2008) recommended some caution, suggesting that Minsky's theory does not grasp the full complexity of the present crisis.

expansion of the money base did not induce a comparable increase in overall money supply. So, while the increase in the money base helped cut the discount rate and short term interest rates, it was unable to induce substantial reductions in the loan interest rates and the cost of money for firms. And in fact these have initially risen. The spread between interest rates on assets with different maturities and riskiness widened (Fratianni and Marchionne, 2009). Although expansive monetary policies served to reduce the number of bank bankruptcies, they failed to trigger a robust recovery of the real economy.

The financial crash was transmitted to the real economy through important negative wealth effects. Asset depreciation induced households to cut consumption and companies to cut investments. Unemployment has risen, wages have shrunk and consumption has diminished still further. The process may last a long time, and the longer it lasts, the more intense it will be, because when industrial production suffers a profound crisis, with sharp increases in unemployment and heavy reductions in most people's incomes, it is very difficult to find any stimulus to aggregate demand.

The root causes

I have listed above some of the political provisions that favoured deregulation in financial markets. They appear to be deliberate political choices motivated by precise collective interests. So 'a judgement on the root causes of the crisis must go beyond the problems of regulation of the financial sector […] It is necessary to take a look at the conduct of economic policy at national and international level' (Fornasari, 2009: 89). Then one realizes that those provisions follow a precise political scheme, the sense of which can be grasped by observing some effects of globalization on growth and income distribution.

The kind of imperialism that holds sway in present days through the liberalization of international markets is based on an implicit pact between the big capital of advanced countries and the big capital of emerging countries. The latter has obtained an opening of international markets to penetration of their goods. The former has obtained the TRIPS agreements, which strongly protect intellectual property rights. In this way emerging countries are able to exploit the competitive advantage of their low labour costs. They produce mass consumption goods with imported technology and export them to advanced countries, waging fierce competition on the latter's less dynamic firms. On the other hand, the big capital of dominant countries has secured a legal monopoly on the resource over which it enjoys an advantage: scientific and technological research (Pagano, 2009). Thus capital of advanced countries derives dual benefit from globalization: it can exploit its monopoly on intellectual activity for the redistribution of income from the South to the North of the world; it can exploit competition in all the other markets to redistribute income from wages to profits.

The liberalization of international trade has contributed to bring workers' movements in advanced countries to their knees. In fact the harshest competition is felt above all by the workers. Imported low price products crowd out many local companies who produce mass consumption goods, forcing them to reduce production and fire workers. Moreover many companies have reacted to competition by relocating investments to countries with low labour costs. This has led to a further slowing down of domestic investments and consequently further weakening of the labour demand. Lastly, there is competition from immigrant workers, as migration from the South of the world is stimulated by demographic growth and the cultural devastation caused there by capitalist penetration.

An increase in labour supply in advanced countries has occurred just when there is a fall-off in demand. But it is not merely an increase in the quantity of labour supply. It is a change in political quality. Immigrant workers, in view of the conditions of extreme poverty in their countries of origin, tend to accept any kind of job, wage, working hours and work conditions. They compete with the national labour force not only by pushing up the quantity supplied, but also by favouring deunionization processes and a weakening of bargaining power, thus paving the way for a deregulation of labour markets. Moreover technical progress in advanced countries, where TRIPS-protected knowledge economy is more developed, tends to be labour-saving and skill-intensive, and this favours a further weakening of the workers' bargaining power. One of the consequences is that wage shares have decreased.[4] Another consequence is that mass consumption has slowed down. Thus, since investments and consumptions hold back, the economies of advanced countries would tend to stagnate.

This result however is not a foregone conclusion, for governments' policy choices could oppose it. And there is a wide variety of choices. It is possible to single out three different policy schemes, which have been adopted by three different blocks of countries. I will call them the 'China policy scheme', the 'Germany policy scheme', and the 'US policy scheme'.

Emerging countries have to maintain a low-wage regime in order to remain competitive. But low wages entail low consumption. Therefore growth cannot be led by consumption. The liberalization of international trade enables these countries to have their growth led by exports. However the systematic current account surpluses determined by export escalation and sluggish consumption tends to boost exchange rates, thus weakening competitiveness. To avoid this, governments have implemented shrewd exchange rate control policies. A good reason for accumulating Dollar reserves is the will of preventing any appreciation of their currencies (Costabile, 2009). Their model is one of *export-led growth*, effected through the

China policy scheme:

- Restrictive fiscal policies
- Restrictive monetary policies
- Aggressive trade policies

[4] The wage share has tended to deteriorate in most advanced countries since the early 80s (Blanchard and Giavazzi, 2003; Guscina. 2006; Arpaia and Pichelmann, 2008; Ellis and Smith, 2008; Husson, 2008). The trend was caused

- Exchange rate control policies

Advanced capitalist countries, where exchange rates fluctuate, cannot implement this kind of policy. Therefore, because of the constant penetration of goods from emerging countries they would have to face the tendency towards a permanent current account deficit and continuous depreciation of their currencies if they wanted to achieve high GDP growth. This, moreover, would lead to a growth in employment, a strengthening of Union movements and excessive wage increases, with a consequent further loss of competitiveness. Exchange rate depreciations might help to contrast these tendencies, but would trigger inflationary pressures.

Germany does not wish to depreciate the Euro, also because it is trying to become a competitor of the United States in the role of world banker. This is why it has chosen to maintain regular trade surpluses. But to this end it had to keep domestic demand down by adopting restrictive fiscal and monetary policies. Thus its GDP growth is low, by virtue of which it has succeeded in killing two birds with one stone: a strengthening of the Euro and a weakening of national Union movements in the Euro area. In other words, faced with the dilemma of 'high growth or trade surplus' Germany has chosen the policy that enables the EU to strengthen national capital internally and externally. The model was one of *restrained growth*, regulated by the simple

Germany policy scheme:

- Restrictive fiscal policies
- Restrictive monetary policies

The United States made a different choice, and enjoyed high and sustained GDP growth from the mid-90s to the recent bubble burst. An explanation of this 'exception' will help us understand the deep political causes of the bubble and the

mainly by stagflation in the 1980s and by globalization since the mid 1990s.

crisis. The United States could not afford a long period of stagnation of their economy. They had to grow at all costs, not only in their own interests, but also in that of global capitalism. In fact they played three crucial roles in the global imperialist system, that of world banker, that of world engine and that of world sheriff.

With their current account deficit[5] the United States feed the exports and growth of emerging countries. By the same token, with this deficit and their capital exports they furnish the money flow needed to sustain world trade expansion and the accumulation of currency reserves in the rest of the world. Their interest in the process is threefold. So long as the Dollar remains the principal international currency, the United States maintain the seignorage that enables them to live beyond their means and to rule the world's financial markets; and so long as their GDP grows, they are able to fund the wars with which they play the role of world sheriff. War funding has necessitated high public expenditure, and this has required high GDP growth to warrant increasing tax payments. Part of the expenditure has been debt financed, but the ensuing budget deficits were insufficient to sustain the required GDP growth. What could be done? How could the United States feed their economic expansion if domestic investments languished? Should they count on consumption? But how could they support a growth in mass consumption if income was systematically redistributed from wages to profits? The answer was: *debt-led growth*. The consumption stimulus to aggregate demand was provided through a process of substitution of debt accumulation to wage increases (Barba and Pivetti, 2009).

A low interest rate policy has helped to sustain the processes of increasing private and public indebtedness. In addition financial deregulation processes have served to support an expansion of banking activity and the financial investment of profits over and above real investments. Finally the economic and political deal with China has played an important role in ensuring that the system works well: China's

[5] It was practically nil (a slight surplus) in 1991, it rose to 2% of GDP in 1997 and to 6% in 2006 (Perelstein, 2009). In 2006 the United States current account deficit contributed 2 percent points to the growth of world aggregate demand (Summers, 2006).

portfolio investments in Dollar securities have served to avoid domestic monetary expansion being completely drained abroad. The *debt-led growth* model was governed by means of the

US policy scheme:

- Expansive fiscal policies
- Expansive monetary policies
- Financial deregulation policies
- Exchange rate policies concerted with China

Note that this policy scheme explains all the five instability factors listed above. Now, the whole machine works quite well… as long as the bubble swells. But it has two weak points. The first is that sooner or later bubbles burst. And we have seen the disastrous effects produced by the explosion of a maxi-bubble in the centre of the world capitalist system. The second weak point is that the system keeps going so long as the other countries accept the Dollar seignorage. Therefore the present crisis could possibly lead to a breakdown of international political equilibrium and a rearrangement of the power relationships underpinning global imperialism.

Whither global capitalism?

To figure out where we might end up after the crisis we need to grasp the nature of the international contrasts of contemporary capitalism and formulate some hypotheses on their possible evolution.

I suggested above that the Dollar hegemony on currency markets is not justified by real industrial and trade supremacy of the United States, but is supported by a political deal with China, the continuation of which now depends more on the Chinese leaders' will than on the United States' economic strength.

Moreover the Dollar hegemony is threatened by the stability of the Euro. The percentage of global Dollar reserves has been declining since 2001 (Perelstein, 2009). At present it stands at around 65%. About 25% is covered by the Euro. However the quantity of Euros in circulation is restrained by the deflationary inclination of the ECB, by the low growth rate of GDP in the Euro area, and by the German dread of current account deficits. Today the Euro is not a very dangerous competitor for the Dollar as an international means of reserve, even because its stability is not so granted, given the bad performances of European economies during the crisis.

The most serious threats may come from elsewhere. The fact is that American industrial and trade leadership is being increasingly contended by emerging countries. These have accumulated enormous amounts of Dollar assets, and fear their drastic devaluation. Usually such fears tend to self-realize swiftly, especially if they are shared by speculators. If the Dollar value depended on market forces alone, a dramatic currency crisis would probably already have exploded. If this has not yet happened, it is because political action has yielded a premium on market forces. In actual fact the international payment system based on the Dollar Standard today resists only by virtue of a precise political choice elaborated along the Washington-Beijing axis.

It now seems that the G2 is working towards a slow and ongoing Dollar devaluation. This befits American capital as it may help to re-launch growth at least in part through export recovery. For the Chinese it is expedient to avoid a catastrophic Dollar fall that would drastically devalue their huge mass of Dollar assets.[6] A smooth and regular decline, possibly followed by stabilization, would enable them gradually to reshuffle their reserves without great costs. At the same time it would strengthen them in their plan to flank the Dollar as an international reserve instrument with a composite currency issued by an IMF in which the weight of China would be substantial.

[6] 1.3 trillion Dollars in 2008, the 22% of global foreign reserves (Lim, 2008).

Meanwhile some dramatic changes are engaging the real economies of the two countries. Due to the crisis, the US imports have decreased and therefore its role of engine for the growth of emerging countries has petered out. In addition depreciation of the Dollar has improved the competitiveness of American goods. The United States trade deficit fell to 5% of GDP in 2008, becoming a 2.5% surplus in 2009. This will put a halt to depreciation. China reacted to the crisis with a package of robust provisions to stimulate demand. In 2008, vis-à-vis the breakdown of advanced economies, the Chinese GDP grew by 9% (see Tab.1). It is an impressive reconversion of the Chinese growth model, which is becoming self-sustained instead of export-led. Chinese imports increased substantially, with the consequence that in 2008 the emerging countries' exports to China for the first time were higher than those to the US. In other words China is preparing to assume the role of main engine in world accumulation.

Tab. 1. Growth rates of real GDP

	1991-2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
USA	3.4	1.1	1.8	2.5	3.6	3.1	2.7	2.1	0.4	-2.7
Germany	2.1	1.2	0.0	-0.2	1.2	0.7	3.2	2.5	1.2	-6.3
Japan	1.2	0.2	0.3	1.4	2.7	1.9	2.0	2.3	-0.7	-5.4
China	10.4	8.3	9.1	10.0	10.1	10.4	11.6	13.0	9.0	8.5

Source: International Monetary Fund, *World Economic Outlook*, October 2009

It is not granted, however, that the plan for a *smooth* transition process will be successful. To start with, there are factions of Chinese leaders who want a more aggressive policy in using currency blackmail on the Dollar, in anticipation of a drastic change in power relationships. On the other hand, it cannot be excluded that in a not so distant future speculators (but also countries holding large Dollar reserves) will decide all together to forestall a strong Dollar devaluation discounting in advance a future adjustment to a realistic fundamental value, as for example, that of the currency of a country which does not produce more than 20% of the global GDP.

The probability of the occurrence of such a catastrophic event now seems to be increasing. In 2009 the Fed and other central banks enacted expansive monetary policies that flooded financial markets with money. The Fed pumped liquidity both by funding banks at a zero discount rate and by buying public and private securities on the market. It did this immediately after the crash to prevent breakdown of the banking system. In reality the cost of Dollar short borrowing has become strongly negative in 2009 (even -20%). Thus speculators found it very convenient to borrow Dollars. Then they invested this liquidity in speculative markets by buying shares, bonds, derivatives, commodities, oil, gold. In this way a new bubble was set in motion involving all financial markets. From January 2009 to January 2010 the MSCI world stock exchange index rose from 700 to 1195,[7] the price of gold in London from about 800 to 1050 Dollars.

It is said that financial markets usually anticipate changes in the real economy several months ahead. So it can be argued that speculators are now betting on the positive effects of expansive fiscal and monetary policies implemented in China and the United States, and on the possibility that they will succeed in re-launching industrial production worldwide. If the bet turns out to be a winner, a dramatic Dollar crisis and a second financial crash might be avoided. In which case the new bubble will have served, among other things, to provide finance for firms planning new investments. Signs of this possible occurrence are shown by the recent growth of markets for corporate bonds, with a remarkable increase of bond issues by big industrial concerns. But those positive effects on the real economy may not materialize, because unemployment goes on increasing and wages decreasing in advanced economies. Moreover the household debt burden in the United States has caused an upsurge in saving propensities which has in turn reduced the ability of consumption expenditure to stimulate aggregate demand. On the other hand it is unlikely that a further rise in the Government's deficit spending will provide this

[7] As a consequence, the yield rates on long term assets have shrank, as is shown by the huge price/earning ratios.

stimulus, given that the public debt has dramatically increased as a consequence of the recent manoeuvres aimed at rescuing the banking system.

If in 2010 speculators realize that real economies continue to stagnate and that recovery is frail, a new wave of financial crashes can be expected. The recent Spanish crisis of February 2010, with the ensuing downfall of the stock exchanges, might be a precursor signal. Then the present crisis will continue beyond 2010, assuming a W-form movement: the first crash has been followed by financial recovery, which will be followed by a second crash. But the first crash has triggered off an industrial crisis, the second will intensify it. Then all the sins of global capitalism will be found out simultaneously, and a swift rebalancing of international power relationships might take place.

If, instead, there is strong industrial recovery in 2010, then a new maxi-bubble (presumably targeting the energy industry) will help lead and finance growth for a few years ahead. In that case the realignment of international power relations may take place more smoothly, possibly postponing a new catastrophic crash to the second half of the decade.

Contemporary global imperialism brought to fruition a fundamental common interest of world capital which downgraded inter-imperialist contrasts to disputes of secondary importance (Screpanti, 2006). This is not to say that political and economic divergences among great geopolitical area do not exist. To be precise, contemporary international disputes are not generated by the propensity of capitalists of any single country to build national empires that tend to expand each at the other's expense. Nowadays there is *global great capital*. It is embodied in multinational companies that already have the whole world as their market and battlefield. All these companies, whether American, European, Russian, Chinese or Japanese, have a common interest in the removal of national economic frontiers, i.e. in the global liberalization of product, capital and labour markets. Multinational firms compete with each other, and often try to induce national governments to favour them in the struggle to secure resources, but will never attempt to drive them to block liberalization processes that open up the channels through which their profits flow. If anything, they urge them to open the frontiers even more. And in this way they serve the interests of the whole global capital.

Nowadays we live in an imperial process of permanent local wars where the entire capital of advanced and emerging countries is moved by a common interest to unlock nations which are recalcitrant to globalization. These wars are waged by the United States and their allies (following the 'sheriff and posse' scheme) in the name of (capital) freedom. Obviously the power relationships among big geopolitical areas keep on changing, for accumulation rates differ. But the true great wars which decide and validate changes take the form of economic conflicts – industrial, technological, commercial, financial and monetary battles – not military warfare. The worst political catastrophe one can expect today from that kind of dispute is a Dollar crisis which will be concluded, more or less rapidly, when China will feel ready to impose a new model of governance for the global economy.

Summary and conclusions

In explaining the present crisis most economists have embraced two alternative positions which tend to focus either on the Fed's policy mistakes or on the international imbalances in saving formation. In this essay I have put forward a different explanation, which identifies the basic causes in America's wider economic policies interpreted as a reaction to the effects of globalization on growth and income distribution. The fundamental causes of the crisis are real, not monetary.

Globalization promoted the growth of emerging countries through an export-led mechanism based on a domestic low-wage regime and a high demand for imports from advanced countries, as well as a policy of exchange rate controls aimed at preventing appreciation of national currencies against the Dollar. A condition ensuring that the mechanism works well is that aggregate demand grows generously in advanced countries.

Germany and Japan however shirked this responsibility by adopting restrictive policies aimed at containing domestic consumption and wages and strengthening their currencies. These policies reinforced the depressive effects caused by the emerging countries' competition in product markets.

The United States did not evade the duties resulting from their position of leader of global capitalism, and adopted expansionary fiscal and monetary policies. Yet they did not try to contrast the negative effects of globalization on wage growth and domestic investments. Rather they adopted a debt-led growth model. With expansionary monetary policies and deregulation of financial markets they encouraged the diffusion of speculative behaviour among all social strata. In particular, by inducing a strong increase in household indebtedness, they sustained the consumption growth that led aggregate demand. The behaviour of the indebted consumer should not be explained as based on rational or quasi-rational consumption decisions, but as a consequence of a combination of short-sighted speculative choices and positive wealth effects.

The policies of the US and China turned out to be complementary as the Chinese authorities decided to use their Dollar reserves to buy American assets, i.e. to finance the US public and private debt, thus sustaining their monetary and fiscal policies.

The crisis came to a head when, probably to stop the Dollar depreciation against the Euro, the Fed launched a policy of increasing interest rates. In this way it first discouraged the accumulation of further debt from speculators in residential markets; then, as a consequence, it curbed speculative demand for real and financial assets, thus triggering an inversion in the trend of their values; finally it unleashed the debt deflation crisis when the decrease in those values made it difficult for borrowers to service and repay their debt. The ensuing negative wealth effects transmitted the breakdown to the real economy.

The present crisis has brought to light the drawbacks and contradictions of a model of economic policy and globalization governance which has been in force since the mid-90s. Those drawbacks and contradictions had already come to light with the dot-com bubble and the 2000-2001 crisis. At that times the difficulties were overcome by a monetary rescue operation and an intensification of the contradictions. Therefore, if the present crisis is not remedied through a radical revision of that model of policy and governance, we can expect either an exacerbation of the breakdown in 2010-2011 and/or a new severe crisis in the second half of the decade.

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