

Acceleration and deepening of the crisis. Recovery uncertain.

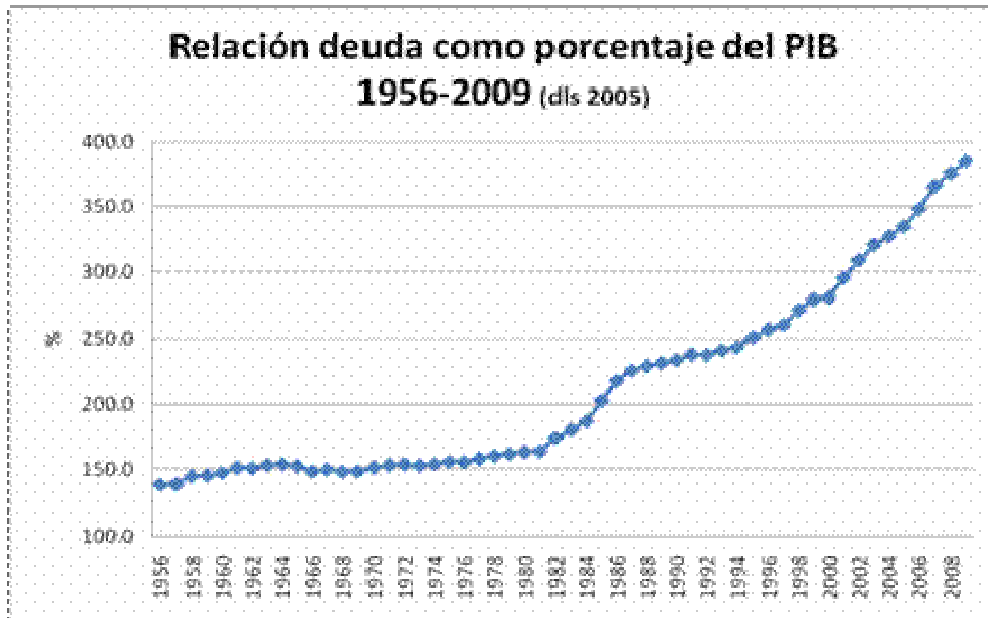
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Summary

In the world we see an economic context of high vulnerability. In the global economy and in national economies endemic instability persists. The deepening and acceleration of the crisis has largely been the result of the mechanism that is followed by various governments to address the crisis during 2008 and 2009. While the 2010, the public policy guidelines and the lack of regulations are contributing to the financial system to delay the start of the crisis, and threaten to deepen further.

Crisis and exit with disastrous consequences

The capitalist market economy is primarily seeking growth, positive expectations that they can make their investments profitable. Through consumption and investment that growth could reduce unemployment that would allow solid demand and the enlargement process. This objective is more urgent in times of crisis. However, what has been perceived in the current crisis is that it has been difficult to enforce this basic principle. Largely by the continued hegemony of finance capital and its fundamental purpose: the indefinite delay of the recovery, as postponed. But it has been due largely to the strategy that turned several governments during the first part of the crisis was not the most appropriate. However, in this second part of the crisis, at least since May 2010 as virulent as the first, the strategies were becoming limited, and in some cases definitely inadequate.



Source: Prepared with data from the Fed and the Treasury Department United States

Since the beginning of the crisis, August 2007, have gone through several stages, but certainly one of the most difficult has been covered between September 2008 and September 2009, when the United States (US) government injected liquidity into the financial system for nearly two trillion (million of million) (Tavares, 2010), taking as collateral the nominal value of the papers to the zero interest rate. Almost all major banks and financial and insurance companies (Goldman Sachs, Citigroup, Bank of America, Merrill Lynch, AIG, Bearn Stearns, Fannie Mae, Freddie Mac, among others) were allocated huge resources of that magnitude. Some banks in countries of the European Union (EU) have also benefited in some way (Deutsche Bank, BNP, Fortis, ING, Commerzbank, Royal Bank of Scotland and a long list).

This is money that the society will pay over several generations, made to appear B. Obama would not change anything about the actions of the previous government. View that was strengthened because his economic

team was the same that showed excessive euphoria during the speculative boom, and also had worked so intimate even in the promotion and management of irregularities of the mechanism; mechanism that had already reported a high dose of speculation, especially plagued by irregularities. However, these policies of Obama`s government, seemed at first counter-cyclical policies in scope, however, a careful review, it appeared that, by the presence of the actors, the ways and mechanisms of the whole rescue process only it was a very limited monetary policy and somewhat inefficient and harmful (Marshall, 2009). However, all contributed to the U.S. deficit will reach a psychological barrier and economic course: 10% to GDP. This situation limits significantly the principles of social policy, one of the most important campaign pledges.

Some of those resources, no less than 68,000 million, were delivered to institutions including JPMorgan Chase, Morgan Stanley and Goldman Sachs. On the other hand, on say that the Treasury Department has spent about 200,000 million dollars to the rescue of 600 financial institutions through different mechanisms.

Thus, if total U.S. debt was maintained at a rate of 150% on average relative to GDP in 2005 dollars, and in 2009 reached a level of 385.3%. While these data are used by the Federal Reserve (Fed) and the Treasury Department, there are analysts who say the debt could be higher, and would be over 400%. While the deficit had reached about 82.690 billion U.S. dollars in late April 2010, almost four times more than the same month of 2009, which stood at 20.910 billion dollars, as noted by the Treasury Department ([www . americaeconomia.com](http://www.americaeconomia.com)). On the other hand the U.S. economy is also facing a

debt in March 2010, with respect to health and retirement systems for state employees, whose deficit could be between \$ 1 trillion (bdd) and 3 bdd. (3 / 22 / 2010) <http://alainet.org/active/36876>.

On the other hand in the European things do not seem to have better face, which was a result of various circumstances, but which have undoubtedly contributed significantly the resources that governments gave the financial system. Grants have come at 3, 5 billion euros, nearly 33% of GDP in the area. However this has not been enough, and acknowledged that is required by 2010, according to the IMF, about 427,000 million euros was for european banks facing their contingencies during 2010. While you are considering a package of a trillion dollars is composed of 440.000 million euros in guarantees for euro zone states, over 60,000 million euros in a european instrument, not yet defined. Moreover, the finance ministers of the EU said the IMF is expected to contribute EUR 250.000 million, bringing the total to 750,000 million euros, although it has the idea to reach one trillion dollars. This strategy encouraged by the reaction of the financial system, the index Stoxx Europe 600 bank shares jumped by 14%, to 212.16 points. The actions of the spanish banks Santander and BBVA rose nearly 22%, while the Italian UniCredit and Intesa Sanpaolo were up 19%. Shares in french banks Credit Agricole and Societe Generale also rose 20 and 24%, respectively. What reveals the speed with which financial speculation is intensifying. However, on the other hand, liquidity in the circuits of real economics still absent.

In this context, Greece is acknowledged a deficit of 13.6% of GDP, more than four times the limit set in the Stability and Growth Pact European. On the other hand, public debt reached 115% in relation to GDP. While the

proportion of fiscal deficit and public debt to GDP of some other countries are in the following levels, somewhat complicated: Portugal (9.4% and 77%), Italy (5.3% and 116%), Ireland (14.3 % and 64%) and Spain (11.2% and 53.2%) (Eurostat 2010). While there is a deficit and debt that involves significant risks, it should be noted that the critical situation in which these countries now spend, owes more to the impact of the global financial crisis, accentuated by the governments themselves, as by the attitude of unbridled financial speculation. Less than a week after lawmakers and european central banks consensus neutralization, no resolution of financial difficulties, with the rescue of 750,000 million euros and the spate of purchases of government bonds, it appears to be of a magnitude has been insufficient to the greed of the financial system.

The impact of the above on the state of public finances has been, how could it be otherwise, from any point of view, extraordinary. Between 2008-2009, the increase in the deficit has been at least 6% of GDP for all countries of the G-20, and the expansion of public debt much higher, around 15%. Thus, any prospect of fiscal balance has evaporated, at least in the medium term, where there was a new and controversial set of economic, political and social, that have already been expressed in several european countries. Apparently because this debt and government deficits, as Paul Krugman said, in "Avoiding the worst" when the crisis seemed to hit bottom in September 2009. "It seems that, after all, we will not have another Great Depression. What saved us? The answer is basically the Big Government "(NYT, 9/8/2009). It was thanks to this intervention, not to have saved the economy, but only the financial sector, but what is not clearly warned that

the rescue was in the hands of the financial sector, would serve to further speculation and so close "to have another Great Depression".



At the end of 2009 the optimistic expectations of the U.S. economy increased, but still without strength, based on the imposition of the principle of the media, as well as the trend towards recession and crises are anticipated by financial markets, so with the recovery. But the lack of recovery of the level of consumption and investment, as the persistence of unemployment are signs that refute these assertions expression of the progress of financial markets. However, as we point out a little later, J. Stiglitz (El País, 13/12/2009) that the process chosen to ease the crisis has proved an obstacle, both for the amount, mechanisms, guidance and agents involved in the process of the financial rescue, as well as adopted the principle that certain banks were "too big to fail." Since these large banks,

having been very irresponsible and speculative greed, won everything, while all costs fell in the pockets of taxpayers.

While it is true that until April 2010 has been simulated recovery in the financial system, creating dreams, have not been very solid. Since that time of recovery was combine with other uncertainties, frail and / or free kick on the real economy. Whilst the high public sector debt on a global scale is set as an important risk factor that could alter the path of recovery for the global economy, the biggest hurdle is the hegemony and lack of regulation of the financial system.

Further reducing growth

After the governments of all latitudes will increase both its deficit and its debt by giving large volumes of resources to the financial system, the same debt and deficits is that the financial system has been used to speculate against all of the world. Evidence of this is the report of September 2009 by the IMF which say that nearly 60% of the worldwide profits of banks (global financial system) came from operations in different markets (securities, capital derivatives, etc.), while 30% was the result of financial intermediation, and 10% of other activities. This treatment speculative attacked both families and businesses, and now the government, the countries. Some have already been victimized, and it is unlikely that financial system stops; no doubt, others countries will fall over unless you impose an iron grip to financial system. This, after March 2010, has been imposing a generalized shock plans and austerity in most countries. These plans provide for fiscal adjustment and tax increases in some cases and in others new rates, reduction of salaries of public servants, cutting staff in

other cases, extension of retirement age, freeze pensions, etc. Finally a wide variety of strategies, but all, imposing the reduction of government spending, the objective pursued the debt is not so big that it becomes unaffordable, but that it remains profitable to the financial system. This will not prevent that the debt will be subject to speculation, as was the case of Hungary, a process that has received the consent and connivance of the brokerages, rating, etc. As can be seen in the current conditions, governments have preferred to follow this strategy procyclical, rather than imposing limits on the financial system. This strategy, pro-cyclical policies, is evident of the following countries:

- Greece: Upload the VAT two points to 23%. Also increase excise duties on fuels, snuff and drinks.

- Portugal: It imposes a further 2.5% for large companies and banks, a tax increase of labor income between 1 and 1.5 points. In addition, the VAT rises one point to 21%, in general.

- France: The government plans to introduce a tax for higher incomes, as well as investment income in order to improve tax revenues.

- Italy: The adjustment proposed by the Italian government comes to 27,500 million euros (m €) in two years, but now does not include raising taxes, although it has been repealed 10% of income tax productivity awards.

- Germany: The Executive provided for a comprehensive tax reform

aimed at reducing the tax burden 24,000 m € annually beginning in 2011, but with the escalation of the crisis, Germany keeps the project on hold.

- England: The deficit rises to 156 000 million pounds. Among some aspects of the plan of adjustment is to reduce public employees, perhaps to 300,000 in the coming years. (Sunday Times May 23, 2010). Whereas its other of its approach is the introduction of a fee to the bank.

- United States: While at the federal level there has been a tax cut, because of various tax exemptions in order to revive the economy, locally, several taxes have risen because each state has its powers: some have increased taxes snuff, other waste, other drinks and even more about tattoos. Moreover, the tax exemption George W. Bush introduced from 2003 to incomes above \$ 250,000, which aimed to promote micro and small enterprises, will expire in the 2010 and apparently the president B. Obama does not plan to renew it.

In this not easy situation, it will come more difficult to incorporate other certainly incommensurable by the pernicious effects that may occur for the global economy. It is 600 trillion in derivatives, although the actual debt is lower, it is a magnitude, as compared with 65 trillion of world GDP, only 10%, represents an imminent danger. This extreme situation has been one of the most damaging result that the system has generated, when radicalize the economic trend that has been imposed in the last 30 years. This is a good reason to assert that the world economy is undergoing a structural imbalance, both for developed countries to the undeveloped.

Thus, under conditions in which it is both the world economy, as the national economies, the consumption or government spending can be function as an economic engine. Because has been enacted a fiscal control, monetary and wages. It is precisely this orientation that can convert the current crisis into a deep depression and long, like in Latin America (LA) in the eighties or Japan. While the case of economies with different specificities, in terms of quality could be similar, although of different magnitude. European monetary and fiscal problems facing severe crisis as a result of the orientation of economic policy that instrument.

From one moment to another, almost every developed country governments have been forced to impose severe adjustment plans. Thus, Spain, Portugal, Italy, United Kingdom, France, Denmark, Germany and U.S. have joined the cuts before than Ireland and Greece had been approved more harder. This has been the response to the clamor of "markets" are demanding that public expenditure most contained. If they refuse not only be threatened by new attempts speculative, but probably will take place. Since the global financial system, with a substantial debt in their possession, they could push through increase a speculative. There is also the perception that expanding the scope of debt, payment can become a major problem to be invaluable for the volume. This situation appears to have provided the financial system, and want to avoid bringing that edge of danger to the international financial system.

However, despite spending so important that governments have done,

said Clemente de Lucia of BNP Paribas, "While these measures will surely have a positive impact on debt financing, the cost will be high in terms of growth and job losses. " Since it is calculating GDP growth of just 0.2% in the euro area in the first quarter of 2010. Forecast that under current conditions implies that the region risks falling into a longer and deeper recession in the near future.

In this difficult context, some governments have attempted to limit, not eradicate, the speculative process in general and sovereign debt in particular, but the financial system has led to expressions of outright rejection response with strong speculation that the euro have had a first severe crisis. You could say that the financial system has spread a net that is catching all that is left in its wake. For example, when the german government restricts naked short-selling, almost speculative mechanisms casino, openly against both banks and insurance, and of course against sovereign debt, either through actions or insurance against debt default (CDS), the response was more speculative impacts. At that time the European Commission has started evaluating the possibilities, through the Committee of European Securities Regulators, which spread to other EU countries, however, such actions "were not well received by the markets", and the financial system answer violently, knocking several exchanges, using migration money to destinations that not impose financial rules, more profitable and with less doubt, causing sharp falls in the main international financial markets, and led to a new low to the euro and reappearance of the pressure on the debt of the countries most exposed at the crisis (El Pais. 19/05/2010).

On the other hand, the extreme situation experienced by the international financial system and the dangers that have been generated for governments, have neglected one aspect that is controversial, is that if governments into debt by giving public money to the financial system, in the context of the recent pressure that governments have been subjected, and should be now that these require the repayment of funds granted, and misguided, and impose strict regulations. While it is true that Europe was the epicenter of the crisis, governments should take a definitive and consistent priority: financial system regulation; control what they themselves promoted, take away the big power give to the financial system.

The policy based on precipitations cuts of the various items of public spending, will not result in a solid succesfull medium and long term, such as the global economy needs today. Therefore imperative that government revenues contribute constructively in the economy and society. These objectives are not achieved in recessions raising taxes and/or cutting public spending, but to encourage investment targeted to strategic areas that are aligned to the needs of the real economy, as consumption and investment. Encouraging more comprehensively to the economy as a whole, unlike as in the recent past. This procyclical policy does nothing to hinder the sales of european companies, on the other hand, contribute nothing to the improvement of the international financial system. Without a change in that guidance both structural and cyclical, there will not a new international economic order.

An initial approach might be conclusive as follows: That from now on can find additional evidence to the idea that the recovery phase is slower when the crisis is the core in the financial sphere. A second approach and more importantly, in current conditions, the various support they have received the different corporations that hegemonizing the international financial system, have had negative effects on the progress of the economy, such as the doubling of unemployment, the deterioration in the volume and quality of employment and wage volume, plus the expansion of precarious employment, public spending and therefore social security, both in regard to health services such as pensions, all imposed wave trace on income distribution and poverty. So, if the authorities got it wrong several governments before giving all the money into the financial system, now apparently about to make another mistake, as it rightly points out in an interview J. Stiglitz (Le monde 22-May-2010) "L'austérité mene au disaster."

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