THE BACKGROUND, CHARACTERISTICS AND CONSEQUENCES OF THE CURRENT
GLOBAL CRISIS AND THE TRANSITION TO THE POST-CRISIS WORLD

PROF. MIHALY SIMAI
MEMBER OF THE HUNGARIAN ACADEMY OF SCIENCES

Short term and long term perspectives, practical and theoretical approaches and first of all a great
degree of hypothetical speculations characterize the debates on the first global financial and economic
crisis of the 21st century. Many social scientists raised the question: Are there several global crises and if
yes, was there any interaction between them and the financial and economic crisis?1 How the crisis could
be characterized: cyclical, structural, systemic, or integrating all the tree characteristics? Is the crisis over
and will it have a lasting adverse effect on the global system? Is the era of globalization and
„neoliberalism” over? What will be or should be a „post-neoliberal” world? These comprise only a short
list of issues in the very rich and diverse global discussions.

There have always been of course different approaches to crises developed by the various schools of
thoughts concerning the definitions, the causes, the outcomes and the role of the main actors. The
followers of some schools of thoughts in social sciences, not to speak about the have been traditionally
more readily qualifying even a smaller turbulence in a system as crisis than others.2, 3

Many students of the capitalist system, the global character of which has been restored as the
consequence of the collapse of the socialist regimes/ and not only the Marxists or neo-Marxists consider
the present stage as a crisis of neoliberal capitalism. An interesting article, published in „Development
Dialogue” included five interrelated areas under the umbrella of the crisis: the over-accumulation crisis,
the ecological crisis, the integration crisis, the democracy crisis and the security crisis.4, 5

Those, who are talking about the crisis of globalization or of multilateralism comprise also an
important group. A well known American journalist-analyst, Fared Zachariah suggested for example the
following idea:” More broadly, the fundamental crisis we face is of globalization itself. We have
globalized the economies of nations. Trade, travel and tourism are bringing people together. Technology

1 See for example he annual conference of the World on Development Economics in (Stockholm, from May 31 to 2
June 2010). Many participants referred to a triple crisis, the financial and economic crisis, the challenge of climate
change and the continuing concern about inflation in global food prices. It has been stated that the interaction of the
three crises undermined the prosperity of present and future generations and the progress in terms of poverty reduction
and meeting of the Millennium Development Goals (MDGs). (The unpublished paper of Tony Addison and Wim Naudé
‘Responding to the Triple Crisis: Entrepreneurship, Innovation and Structural Change’).
2 This is not the place to discuss the concept of „crisis”. Still it is necessary to clarify certain aspect of its use or misuse.
In Greek historical writing it has been used in the legal, medical, and rhetorical terminology as the turning point in a
decision, or argument. Its social reappearance with reference to events, periods, or processes dates from the late
eighteenth century as critical episodes in a system, indicating structural dysfunctions in the society and in the economy.
Through the political process and of the media the concept became important in the vocabulary of the political culture
in the 20th century as a broad and expanding catchword—an alternative to the more concrete ideas characterizing
important disturbances in different systems. Crisis management had become a task, developed not only by political
science, but also by other disciplines.
3 Probably since the debate on the Erlich book, “The Population Bomb” the well known report of the Club of Rome and
the first energy and food crisis in the 1970s the concept of a systemic interrelation of the different crises and the concept
of an era of mega crisis entered into the global dialogue and a number of studies have been written. Different computer
models facilitated the quantification of interrelations between the different areas, on which sufficient data had been available.
Uppsala, Sweden.
has created worldwide supply chains, companies and customers. But our politics remains resolutely national. This tension is at the heart of the many crashes of this era—a mismatch between interconnected economies that are producing global problems but no matching political process that can effect global solutions. Without better international coordination, there will be more crashes, and eventually there may be a retreat from globalization toward the safety—and slow growth—of protected national economies.\(^6\)

There is very little doubt however that the economic downturn, which started in 2007 could be characterized as the most serious global crisis since the great depression of the 1930s with long term and in some areas devastating consequences. It has started as a financial crisis and spread rapidly at first to the whole financial system and than to the rest of the economies. Here I want to emphasis that even a systemic crisis does not imply the collapse of a system, but it is a major disturbance or turbulence blocking or seriously hampering it’s functioning. It may be however leading to the collapse of the given system with serious and often unpredictable global political, social and economic consequences. Even though the global economy is slowly and unevenly entering into a post-crisis era, characterized by sluggish growth, unemployment and volatile markets, in this paper one should start with a discussion about the global environment and some of the main characteristics of the crisis.

**On the global environment of the current crisis**

Five years ago the former SG of the UN Kofi Annan made an important statement in his Report to the GA of the UN about the state of the world, walking on a crossroad. There are periods in history when humanity is at a crossroads, when the paths that are followed influence large numbers of people in fundamental ways for hundreds of years. We are in one of those periods right now, as the decisions we make over the next decades on such important issues as the global environment, the population challenges, on the proliferation of nuclear weapons and many other global challenges, will affect the lives of billions of people worldwide for countless generations. This is due to the more or less unprecedented changes.

In one of my books, I characterized the last decades of the 20\(^{th}\) century and the first decades of the 21\(^{st}\) century\(^7\) as the age of multiple global transformations, with many adverse consequences, but also with sometimes important new opportunities for certain actors of the global system. In my approach I have drawn the theoretical and conceptual inspiration from Karl Polanyi’s “The Great Transformation” Some of these, like the demographic transformation, the super-urbanization, the changes in global power structure, the consequences of the global ecological crisis are rooted in the legacy of the 20\(^{th}\) Century\(^8\).The global consequences of the emerging new world-wide system of capitalism in the globalization process, in the role of states in economic and social development and in the different regions of the world may be more visible in the later decades of the 21\(^{st}\) century. The coincidence of major transformations within a given era, are rare in human history. The different transformations, the evolving new factors and forces resulted in already a complex, diverse and turbulent world by the 21\(^{st}\) century. These also explain why consequences of the crises, including particularly the current one have may greatly differ not only in the North and the South, but also for the individual developed and the developing countries.

The different crises have been often considered as milestones or turning points is history marking certain “endings”: the end of history, the end of geography and the nation state. In connection with the current crisis it has become suddenly fashionable to anticipate the “ending of globalization” the end of

\(^6\) Newsweek June 22, 2009  
\(^8\) The 20\(\text{th}\) century has been indeed one of the most controversial era of human history. It was the era of nationalism and of internationalism under different flags and ideologies, using peaceful or violent instruments. It was the century of decolonization, the disintegration of the great empires. The century has included some of the worst dictatorships of human history and the unprecedented broadening of freedom and democracy. Revolutions and counter-revolutions, world wars, national liberation wars, religious, class, ideological and ethnic conflicts paved the bumpy road toward the third millennium. Civil society do-gooders preaching human solidarity, narrow-minded dogmatic and violent fundamentalists, movements which were declared as terrorists and later became leaders of their new countries, political leaders who were responsible the mass murder of millions and are still considered as their heroes by certain groups, global organizations of criminals and many other strange, violent or non-violent groups were among its main actors. Ninety per cent of those scholars who lived and worked in human history have been shaping and developing the rapid progress of science and technology, embodied in new products, processes, consumer goods and horrible weapon systems. A radical improvement in the quality of life of many millions, mass poverty and misery, expectations, disappointment and despair of billions are all parts of the controversial heritage of the century behind us.
neoliberalism or even the end of capitalism. Many, in the academic world are rejecting the neoliberal prophets in favor of Schumpeter and Keynes and even Marx in an attempt to search the future of the capitalist system.

**On the crisis of Capitalism**

This paper is not a place for a theoretical discussion on the reality of the "ending" concepts. In my view, Capitalism of the post-Cold War era, the restoration of its global predominance is only the beginning of a new capitalist system of the 21st century. The "world economy", which is in fact the economic basis of the global capitalist system and is the main area of globalization, is larger, that ever before in human history as it is reflected in the size of the global product, the accumulated capital which exists and functions in different forms, the volume of global consumption. The most important non-state actors in the system, the transnational corporation occupy a dominating role in practically all the sectors of the world economy.

Some authors, even from among those who do not belong to the category of the critics of the system, consider the given era in a broader context, as the crisis of global capitalism. George Soros in one of his books, published long before the present crisis, wrote about the crisis of global capitalism. By "global capitalist system" Soros did not mean capitalism as a world-wide system of production for profit, but the more restricted sense of present world financial arrangements which allow the more or less free movement of capital throughout the world in which interest rates, exchange rates, and stock prices in various countries are intimately interrelated, and global financial markets exert tremendous influence on economic conditions. It is these arrangements-this single world financial market-that he is saying is in danger of disintegrating; which of course would not at all be the same thing as the collapse of capitalism. "To put it bluntly, the choice confronting us is whether we will regulate global financial markets internationally or leave it to each individual state to protect its own interests as best it can. The latter course will surely lead to the breakdown of the gigantic circulatory system, which goes under the name of global capitalism."

Soros did not take into account in his writings that the “restored” global capitalist system of the 21st century, the system differs in many respect from that capitalism, the universal character of which has been broken in 1917. First of all, it is a dynamic, hierarchical, multipolar system. On the top of the hierarchy is still the United States, the only multidimensional global power. Those states, whose might is based on several factors such as the large and developed economy, strong army, influence in global politics and diplomacy, and efficient information sphere acquire considerable advantages. The system however is much more diverse than it was in the 19th and at the early years of the 20th century. It is not the capitalism of the “territorial empires”. According to some analysts, there are economic empires, but even those who use this concept have to recognize, that their role is quite different than those of the political empires. There may be of course dangers, that the micro-, mini- or small states which are exposed to the mercy of the global economic forces can easily become client states. As for the functioning of the system I think that the very first evaluation of capitalism, after the collapse of the socialist regimes, has been offered by John Paul II in his Encyclical letter “Centesimus Annus” in 1991.

It is an even more important warning than it was in the early 1990s:

“……. can it perhaps be said that, after the failure of Communism, capitalism is the victorious social system, and that capitalism should be the goal of the countries now making efforts to rebuild their economy and society? Is this the model which ought to be proposed to the countries of the Third World which are searching for the path to true economic and civil progress? The answer is obviously complex. If by "capitalism" is meant an economic system which recognizes the fundamental and positive role of business, the market, private property and the resulting responsibility for the means of production, as well as free human creativity in the economic sector, then the answer is certainly in the affirmative, even though it would perhaps be more appropriate to speak of a "business economy", "market economy" or simply "free economy". But if by "capitalism" is meant a system in which freedom in the economic sector is not circumscribed within a strong juridical framework … then the reply is certainly negative.

He continued:

“The socialist solution has failed, but the realities of marginalization and exploitation remain in the world, especially the Third World, as does the reality of human alienation, especially in the more

---

advances countries. … Indeed, there is a risk that a radical capitalistic ideology could spread which refuses even to consider these problems, in the a priori belief that any attempt to solve them is doomed to failure, and which blindly entrusts their solution to the free development of market forces.”

The ways through which the different models of capitalism contributed to economic growth, increasing inequality and instability depended very much on country specific factors. The American system, where the global crisis erupted, has been characterized as a regulated liberal free market. While in principle, most of the necessary financial regulations were “available”; in practice they have not been implemented. The other model of capitalism, the different configurations and left-over of the welfare state in Europe with relatively high level of social expenditures and deeply integrated in and with the global economy, and particularly with the United States through the global financial conglomerates and the transnational corporations, have been particularly hit by the crisis. The corporative model in Japan and in other Asian countries proved to be vulnerable also because of their dependence on the world markets. The consequences of the crisis on the different systemic hybrids in the developing world in the former socialist countries depended on the character of interconnectedness with the developed world, the volume of their reserves and the capabilities of their government to protect their economy or to implement domestic stimulating measures. Some countries in this group could manage better the financial consequences of the crisis, mainly because they had substantial reserves and their financial system has not been loaded with bad securities.

Patterns and outcomes

At the beginning of it, the current crisis was correctly considered as a banking, credit or financial crisis by most of the experts. Financial and banking crises have a long history, which is as old as the existence of the financial sector itself. While all markets are imperfect and subject to failure, financial markets are more prone than others to fail because they are plagued with three particular shortcomings: asymmetric information, herd behavior and self-fulfilling panics. Unstable financial flows often lead to one of three kinds of crises: Fiscal crises. The government abruptly loses the ability to roll over foreign debts and attract new foreign loans, possibly forcing the government into rescheduling or default of its obligations. Exchange crises. Market participants abruptly shift their demands from domestic currency assets to foreign currency assets, depleting the foreign exchange reserves of the central bank in the context of a pegged exchange rate system. Banking crises. Commercial banks abruptly lose the ability to roll over market instruments (i.e., certificates-of-deposit) or meet a sudden withdrawal of funds from sight deposits, thereby making the banks illiquid and possibly insolvent. What is common among almost all crises is the build up of excessive leverage in the system and the inevitable bursting of the financial bubble that results from such leverage. The great crises follow one another, but never in an identical form, because it is typical of capitalism that it evolves in a spiral, never passing twice through the same configuration. Each financial crisis tends to be new and original in terms of the structural background and the interaction of its causes and transmission mechanism. There is a long term, deeply rooted structural change, on the soil of which the current crisis developed and there are shorter term causes.

The structure of the global economy has radically changed during the second half of the 20th century. From among the sectoral shifts, directly related to the crisis, the most important change has been the „financial deepening” the fast increase of the financial sector or the expansion of the paper economy.

---

10 Financial crises have been described in different textbooks as a situation where the capital chain of financial system breaks. Superficially, there is not enough money in an economic system. Actually, the reason is that the circulation of currency is not good. The companies or entrepreneurs do not have funds or lack funds and cannot get loans from banks. Money can not flow freely. Companies go bankrupt, or reduce their size of production, or even slow down their trade expansion. The shrinkage in production and manufacturing industry can be seen directly from less orders and substantially reduced procurement volume of importers. On the side of retailers, they sell their inventory as soon as possible, sell at discounted prices to recover cash, and control inventory or even keep zero inventory. As the financial turbulence hit normal trade circulation, it results in the big fluctuation of exchange rate and depreciation of currency. As a result, the procurement cost will be higher. Trade is hit severely by both increase of purchasing cost and decrease of purchasing power. At this time, merchants need inexpensive goods more than ever before to compensate the loss caused by the financial shock. If the sales volume of low-price goods soars in one country or region, trade friction between trading countries will come forth, without exception during the time of financial crisis. If there are too many imported goods in a country, this will directly lead to the rise of trade protectionism and more trade barriers that violate the principle of free and fair trade.
This is that part of the national or the global economic system, where there is no material production and it is dominated by the movements of money, stocks, bonds and other financial instruments. Since the 1980s it has increased three times faster, than the „real economy”: industry, agriculture, the related services, transport, communication, commerce. The development of the paper economy stimulated the unprecedented growth of the global financial centers. In the medieval period „city states” emerged as the centers of trade. In the 20th century important centers of global money trading emerged, which concentrated stocks and commodity exchanges, private financial institutions. During the last decades of the century, they became the global concentrations of the paper economy. The main actors in these centers were financial conglomerates, investment and commercial banks insurance companies, underwriters, broker houses etc. These centers, like London, New York, Tokyo, Hon Kong, Shanghai, Singapore, Frankfurt, Paris, Amsterdam, Geneva, Dubai, etc are not only connected by the mobility of capital, but through the interconnectedness of the stock exchanges they are functioning 24 hours. They play a crucially important role in speculation and also in the rapid spread of panics. These centers became very important also in the national economies. The London center is responsible for 15 per cent of the GDP in the UK.

All these changes promoted an unprecedented degree of financial innovations. Especially in advanced economies such as the United States and the United Kingdom, the financial sector has accounted for an unsustainable share of corporate profits and profit growth. While the paper economy and the real economy is interconnected both in national and international framework, the vitality of the real economy - the economy that most people depend upon for their livelihood has been undermined During a period of strong global growth, growing capital flows, and prolonged stability market participants sought higher yields without an adequate appreciation of the risks and failed to exercise proper due diligence. The instability and volatility of the paper economy can devalue the economic base of real lives, or in more macro-scenarios can lead to the collapse of national and regional economies rather fast.

An outstanding British political-economist Susan Strange called this process „casino capitalism” referring to the views of Keynes. In her book, Casino Capitalism Susan Strange likened the Western financial system to a vast casino. As in a casino, "the world of high finance today offers the players a choice of games. Instead of roulette, blackjack, or poker, there is dealing to be done - the foreign-exchange market and all its variations; or in bonds, government securities or shares. In all these markets you may place bets on the future by dealing forward and by buying or selling options and all sorts of other recondite financial inventions. Some of the players - banks especially - play with very large stakes. There are also many quite small operators. There are tipsters, too, selling advice, and peddlers of systems to the gullible. And the croupiers in this global finance casino are the big bankers and brokers. They play, as it were, "for the house.' It is they, in the long run, who make the best living." She goes on to observe that the big difference between ordinary kinds of gambling and speculation in financial markets is that one can choose not to gamble at roulette or poker, whereas everyone is affected by "casino capitalism." What goes on in the back offices of banks and hedge funds "is apt to have sudden, unpredictable and unavoidable consequences for individual lives."

Each financial crisis bears a resemblance to other crises and in most cases passes through similar phases, but each of them has its specific characteristics.

The specifics of the current crisis are not only its profound character and global spread, but its relatively fast transmission to the real economy. Its consequences may also be more wide-spread, and the worst since the Great Depression. It has started in the US, where economic growth of the preceding years was in reality a debt-financed boom. The role of debt or as it is called nowadays in the vocabulary of finance, the „leverages” has been also important in Europe. The US housing bubble was inflated by global capital flows. The European financial bubble included massive lending to Eastern Europe and Latin America. These regional bubbles were amplified and connected by a global financial system that allowed capital to flow easily around the world. It has been anticipated by many experts that if the financial sector of largest economy in the world, whose currency and institutions was at the core of the global financial system, entered into a deep crisis the resulting crisis would spread and become global. The crisis has been spreading to the real economy though mutually reinforcing channels: the „credit crunch”, i.e. limiting of the availability of credits for working capital, trade and investments, which also made spending decisions of the consumers and investors more and more cautious, leading to lower output and unemployment. It has reduced international trade, capital and remittance flows.

---

11 Strange, S. Casino Capitalism, Manchester, U.K: Manchester University Press, 1986
The global economy has entered a vicious circle of downward linkages. The financial sector weakened further. The weakening of the financial sector further weakened the real economy. Policymakers were slow to learn that they were dealing with two severe crises on a global scale, in the financial system and in the real economy. As the economic crisis has spread from financial markets to real economies in countries around the world, governments have understandably focused on short-term measures to contain the damage. Crafting stimulus packages and financial bailouts to address immediate problems has for many reasons been a priority for policymakers.

Socializing losses through the fiscal budget on national and international scale has been a widespread option for dealing with the bad debt buildup and the bankruptcies. Most governments, be they conservative or social democratic, American or Scandinavian, have had to resort to this method in order to avoid a possible collapse of the entire banking and financial system and avoid a major global increase of unemployment.

Beyond the immediate causes and implications of the crisis there have been a number of specific factors which led to the meltdowns. The soil on which the financial crisis developed has been an international network of major current account imbalances, reflecting national disequilibria between saving and investments in the major countries, which started rapidly growing after 2000.

There has been an overconfidence in the strength of the financial sector. First of all, the excess leverage occurred over a period when greater consensus had developed through the Basel process on the need for and level of adequate capital required in banking institutions in all. Furthermore, sophisticated financial risk management capabilities were also believed to have been developed within large financial institutions during this period of unusually high rapid growth in both the magnitude and sophistication of the financial system. With financial deregulation in a number of countries, particularly in the United States and the U.K, financial institutions also grew in complexity. Financial conglomerates began to spread their business to practically all financial functions under one system: banking, insurance, asset management, proprietary trading, investment banking, broking, and the like. The relative stability in financial markets, reflecting the low cost of funds and solid economic growth, led to significant underpricing of risk. Lending standards were weakened and leverage increased. The rise in leverage sharpened the exposure to liquidity risk for financial institutions as they depended increasingly on wholesale markets for funding and these funds became increasingly short term. The situation was aggravated by the spread of innovations and risky deals. New, complex financial products obfuscated risks and contributed to serious mispricing. In the first decade of the century securitized credit intermediation and associated derivatives grew at an unprecedented speed. Credit bubbles had emerged in several regions of the world which began to blow up rapidly as the financial turmoil unfolded. The collapse of Lehman Brothers has been a consequence and an additional source of the turmoil by creating panics and aggravated the severe erosion of confidence in financial markets. It was however not only the adverse feedback loop between financial and real economic activities which extended the financial crisis to the real economy. It has of course restricted the flow of funds from the financial system to the real economy, but a more or less separate set of problems emerged in the real economy: the rapid increase of surplus capacities in major industries.

The crisis has produced or exacerbated serious, wide-ranging yet differentiated impacts across the globe. The negative impacts, which have been reported by many states varied by country, region, level of development and severity, included the following:

- Rapid increases in unemployment, poverty and hunger
- Deceleration of growth, economic contraction
- Negative effects on trade balances and balance of payments
- Dwindling levels of foreign direct investment
- Large and volatile movements in exchange rates
- Growing budget deficits, falling tax revenues and reduction of fiscal space
- Contraction of international trade
- Increased volatility and falling prices for primary commodities
- Declining remittances to developing countries
- Sharply reduced revenues from tourism
- Massive reversal of private capital inflows
- Reduced access to credit and trade financing
- Reduced public confidence in financial institutions
- Reduced ability to maintain social safety nets and provide other social services, such as health and education
- Increased infant and maternal mortality
- Collapse of housing markets.

There are different estimates by different international organizations and academic experts about the global losses attributed to the crisis. Although the total costs of the crisis, due to the GDP decline and the direct losses will take years find out, it is already clear that the global economy has suffered enormous damages. Declines in equity and real estate values wiped out $28.8 trillion of global wealth in 2008 and the first half of 2009. Some of it has been recovered. The cost of „managing” the world's financial crisis by the second half of 2009 was about $11.9 trillion. This total includes capital injections pumped into banks in order to prevent them from collapse, the cost of soaking up so-called toxic assets, guarantees over debt and liquidity support from central banks. It amounts about 20 percent of the world's total annual economic output. The bulk of the money comes from developed countries with a total of $10.2 trillion while developing nations contributed $1.7 trillion, the majority of which is in central bank liquidity support for their financial sectors. The combined budgetary deficit of the countries that make up the G20 is estimated as 10.2 percent of GDP in 2009, the biggest since the Second World War. The largest deficit will be faced by the U.S. with 13.5 per cent of GDP. International capital flows have been falling by more than 80 percent. Governments took the right measures to save the banks, and some of the large firms but ignored the longer term dangers and tasks. As a result, taxpayers may be asked to pay twice, once for the bailouts and then for the debt and face the cut of public and social services.

Beyond the costs of the crisis and their consequences, there is a particularly important long term problem, the global „employment crisis” with a consequence of longer term jobless growth. The jobs of more than 40 million people have been lost. Most of them became unemployed, some of them entered into the category of temporary employment. This is probably the most dangerous social consequences of the crisis, aggravating also poverty and inequalities.

Those „official” statements, that the crisis is over, may be technically correct in the most important countries as far as the GDP growth is concerned. The crucial question is: will the crisis be followed an economically depressed, more or less stagnating period in the global economy, characterized by jobless growth, large and sustained unemployment, slow increase in consumer demand? According to the estimates of the ILO, there are still millions of jobs at risk, and the pre-crisis level of employment will not be restored before 2015.

The prospects of globalization in the post crisis world

It is not clear either, to what extent the conclusions drawn from the current crisis will change the functioning of the global system or the world economy, particularly the financial system. The answer to these important questions depend first of all on the political decisions in the most important states and second on the effectiveness of multilateral cooperation, particularly the harmonization of national policies. One important issue which may be hindering the harmonized international efforts is the struggle for greater international competitiveness by the national economies. As the weight of the global economy has been moving from West to East, Asia has become the largest pool of most industries. The increasing role of the new transnational actors from the East and South has been changing the character of global value chains and global competition. The other problem is the difficulty to regulate the interconnected trade flows, capital movements, inward and outward FDI, technology flows and international migration. Regulations in one area may adversely influence the functioning of the system as a whole. The global crisis of the 21 century also proved that national policies could often be nullified by global processes and transactions over which governments have little or no control.

12 IMF and ILO
13 The financial crisis has caused a prolonged loss of output in the advanced economies—even if growth resumes. Financial crises have especially savage effects on GDP—as the Great Depression in the 1930s and Japan’s stagnation in the 1990s illustrate. Investment falls in recession, and with it future output. For 88 banking crises in advanced, emerging and developing countries, the IMF estimates that output per capita declined by about 10 per cent relative to its pre-crisis trend, on average. And the loss had still not been restored seven years after the average crisis In very few cases did output accelerate sufficiently after a financial crisis to return GDP quickly to its pre-crisis trend. (IMF’s 2009 World Economic Outlook offers detailed explanation for the causes)
Many analysts anticipated that the crisis will undermine the globalization process and as after 1933, protectionism will become again a dominating trend. The crisis so far did not “derail” globalization. Some protectionist measures have been introduced in certain countries. According to WTO it has influenced about one per cent of world trade. National policies understood that among the alternatives to the globalization process, economic disintegration, new nationalism, competitive regionalism and new conflicts are representing major dangers for all countries, but particularly for the smaller and vulnerable states. Among the actors, particularly interested in sustaining a relatively liberal global economy the transnational corporations have been playing a major role. Their basic interests are strongly tied to an open, liberal global economic system. General liberalization of trade and financial flows, financial globalization coupled with the global interconnectedness through telecommunications and information flows are indispensable for their business. The crisis has been a major challenge also for them. From among these globally integrated companies the international financial conglomerates were first put to the test early on in the crisis. Many of these transnational financial institutions were suddenly in a difficult position and had to start the search for government support. In some cases, governments responded cooperatively—the individual governments had to support also international institutions in banking and insurance. Public resources became also necessary for many international firms in car manufacturing and in some other industries. The importance of the transnational corporations as global actors will at least remain, or even increase in the post crisis world due to their competitive strengths, based on financial, technological, organizational and managerial capabilities. The crisis accelerated however the changes in their “club”. The TNCs from China, India, Russia and Brazil used the opportunities to increase their global business.

The improving effectiveness of multilateral cooperation is probably the most important condition of the sustainability of globalization in the post crisis world. As the world has moved into a more uncertain phase of global interconnectedness with the dangers of mutual vulnerabilities, the global crisis has been an important challenge for all the institutions of multilateral cooperation. There are four very important issues, which will have to be addressed in national framework and also in the system of multilateral cooperation:
- the appropriate management of global social and political challenges in order to avoid international conflicts;
- sustaining those channels (trade, capital flows, information flows, transport, tourism, etc) which connect the domestic economies, consumption, investments, innovations and other sources of growth;
- the stabilization and appropriate regulation of the financial sector, including the national and global implications;
- the moderation of poverty and the promotion of employment in a competitive global environment.

The existence and the growing importance of global problems is an other factor of the needs for global cooperation and collective actions. The sustainability of the system depends increasingly on the capabilities of the countries to keep the world together with the help of some form and structure of global governance. The global economic crisis has sped-up the transformation of a redistribution of global economic and political power. At this stage however one cannot arrive into firm conclusions about its longer term consequences. Sustaining and strengthening global comprehensive security will remain of course fundamentally important in future multilateral cooperation. The crisis proved that global economic security should be a major component of it.

The restructuring, extension and central role of the G20 in the global governance process has been probably the most important “innovation” in the institutional framework of multilateral cooperation in the 21st century as the consequence of the crisis. It is an important, but open question that this institutional innovation implied the beginnings of a new era in global governance or not? The most important initiatives of the G20 included the new role and increased possibilities of IMF and the coordination of certain national crisis management measures. It has become evident however that the major state actors have no comprehensive vision, strong commitment and financial means to take the initiative and carry the responsibility for implementing those changes, which could manage and reduce the main sources of those global risks, which are also responsible for the crisis. There are two very important areas which require urgent actions. One of them is the development of an effective, resilient global regulatory system in the financial sector.

The other area is the management of the global employment crisis which is a key source of social problems and poverty. Economic growth in many countries over the decades, preceding the financial and economic crisis, did not produce employment opportunities corresponding to the fast increase of people
in the working age groups on global scale. The crisis aggravated this situation. It is estimated that in 2008, some 633 million workers (21.2 per cent of the workers in the world) lived with their families on less than $1.25 per person per day. As a result of the economic and financial crisis, it is estimated that in 2009 this number increased by up to 215 million, including 100 million in South Asia and 28 million in sub-Saharan Africa. This suggests that up to an additional 7 per cent of workers. Over 300 million new jobs will need to be created over the next five years to return to pre-crisis levels of unemployment.  

In conclusion: global recovery is still at an early stage. It is happening slowly and will probably remain uneven. The global economy has been growing but unemployment and excess capacity remain high, and demand growth may remain sluggish for many years in the developed countries. Emerging markets are still pulling world demand, the debt problem is also a source of global threats. Many countries have been thrown into a deep sense of insecurity. Misery and hardship increased for many people everywhere. At the beginning of second decade in the 21st century, the long term fall out from the crisis is still not clear.

The world may still miss the opportunities for the radical improvement of the multilateral system due to the inertia in the system, including the role of the diverging interests of the main, influential “actors” of the system. The global crisis made the selection of a new path in multilateral cooperation much more urgent. It has revealed the new risk factors, the dangers of long term global stagnation, resulting in protectionism, trade wars. At the same time it has created a new intellectual consensus for collective actions. The transformation of this consensus into practical measures depends not only on the collective wisdom, capacity and commitments of the countries. New, more effective methods are needed for the better harmonization of the interests of the main actors. The role and responsibilities of social scientists and particularly of economists are very important at this stage in promoting not only the better understanding but also the management of the complex economic, political and social problems of the post-crisis world with democratic, action oriented solutions.

Bibliography

Cuomo, A.M. 2008. “No rhyme or reason: The ‘heads I win, tails you lose’ bank bonus culture” (New York State Attorney General’s Office).

15 From the Report of the UNSG to the Global Summit in Sep. 2010


* 

dke@southeast-europe.org
www.southeast-europe.org

© DKE 2010.

Note: If you make a reference to this article or quote part of it, please send us an email at dke@southeast-europe.org to let us know that. Please cite the article as follows: Mihaly Simai: The background, characteristics and consequences of the current global crisis and the transition to the post-crisis world. Délkelet Európa – South-East Europe International Relations Quarterly, Vol. 1. No. 3. (Fall 2010) pp 1-10.

Thank you for your kind collaboration. Editor-in-Chief