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On the Nature of the Present
World Economic Crisis.
A non-neoliberal sketch

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SUMMARY

The author wrote this paper in 2009, after the outbreak of the crisis. The paper, in the first place, was made for the young economist generation about the non-liberal crisis interpretation. The main thoughts are also topical at present, in the middle of 2011, when perhaps a new wave of the crisis might have started, for world economic tensions, which the paper introduces, survived in essence as the consequence of bank-saving and money-producing policies.

At first, the paper enumerates the crisis explanations from Sismondi through Marx to Krugman and Roubini the economists of our present days. It shortly mentions previous typical world economic crises and lists their changing features, outlines the stages of economic cycles, and touches upon the existence of the greater crises that change the functioning of capitalism, the so-called node crises.

Analysing of the nature of this crisis of capitalism the paper begins with the present era, with introducing of the features of transnational (global) capitalism (mention is made about the financial and real economic balloon, the hierarchic world order and the disturbances in the equilibrium of international payments, *etc.*). Among others, the characteristics of the present crisis are as follows: globalization forms its background; overwhelmingly greater balance-of-payments and other equilibrium problems feature it than before; the developed centres stand in the middle of the crisis processes; making workers compete worldwide tightens market demand; neo-liberal world order representing the interests of the biggest investment companies "sprang a leak"; the crisis was managed by methods of state intervention.

In 2011, it is interesting to re-read the 2009 review of the world-economic growth prognosis made at the beginning of the same year in the Institute of World Economics of the Hungarian Academy of Sciences. Among the scenarios drew up then, the version which predicted the success of government policies rescuing and stimulating the economies and forecast a slow economic growth already form the middle of 2009 has come true. In this outlook we expected that the trade cycle – due to the tensions lingering on – will only last 4-5 years. The 2011 falter in world economy suggests that it may even be shorter than that.

Finally – since this time too, a node crisis takes place after which the operational methods of capitalism will change – it is the possible future formations of societies that will be discussed in the paper: (1) a modified neo-liberal, (2) a global neo-Keynesianism or (3) a far-reaching, oriented to social and environmental issues model.

INTRODUCTION

The debates on the operation and the features of capitalism usually emerge in times of crises. And since in the previous years several illusions have lingered on the viability of the crisisless development of capitalism (*e.g.* the neoliberal general equilibrium concept, the vision of the information society capable of governing itself, the concept of the "new economy" trusting absolutely the powers of technical and productivity development during the long lasting boom of the '90s, *etc.*), the crisis itself and the organic laws of capitalism were hardly dealt with. Economic thinking was dominated by micro-economic approaches of business respect, and the interpretation of the macro-economic processes was based on the supply–demand models elaborated for company–bank management. And these short or at most medium-term models are hardly capable of considering the complex nature and long-term fluctuations of the national economic (and social) processes, not mentioning the complicated inter-connections of the globalizing world. The representatives of the *political economic approach* (some of them will be mentioned later) were overshadowed both in literature and business life. And in Hungary, the neo-liberal economic way of thinking, even under the present depressive circumstances, is still stronger than in the West, where several university departments with Keynesian and even Marxist views were operating over the previous decades, and the neo-liberal principles of the minimal state intervention and economic inducement were rejected as a result of the present global crisis. In Hungary, the leftist and rightist economists, hand in hand in the Reform Alliance, announced a restrictive program, which is *one sidedly* based on neo-liberal principles, deepens the crisis and raises social contradictions.

A new generation of economists grew up who, even if may have learnt about not neo-liberal (not neo-conservative in the political sense) ideological trends and interpretations of capitalism, consider these as archaic, and have not absorbed the theoretical system of these. in fact. I made the following analysis within the framework of a professional debate, partly in order to make the young colleagues acquainted with a sort of political economic view. This work is on the one hand brief, almost a sketch-like summary and on the other more or less didactic in nature that explains basic terms.

1) CRISIS AND THEORY

Depressions have been analyzed by many in the history of economics. I mention some in brief of the most important interpretations.

Among the early theoretical economists, *Jean-Charles-Leonard Sismondi* (1773–1842), for example, thought properly that machines oust men from production, working class falls into poverty, which results in the contradiction between production and the insufficiency of demand. For this reason, Sismondi deemed crises inevitable which, according to him, can only be eased by the existence of small producers and non-capitalist markets. *Thomas Malthus* (1766–1834) also shared the opinion that over-production features capitalism. In his opinion capitalists do not spend enough, and workers are unable to spend enough to make demand adapt to the pace dictated by accumulation, while surplus can be drained by the existence of the "non-producing consumers"' class, *i.e.* the aristocrats, the clergy and the state buraeucracy. (At the same time – essentially contradicting his previous thoughs –, in his famous thesis he emphasized the existance of food shortages, and demanded to crub population growth at any price, even by means of war.) At the beginning of the 19th century, in the wake of the spread of the *Say dogma* – according to this total supply always creates its own demand – the possibility of a crisis was considered partial and temporal. The French *Clément Juglar* (1819–1905) was the first to make time-series analyses, and on the basis of these he mentioned investment periods of 7-11 years, dependent on prosperity in the background of trade crises. In these days there has been a revival of interest in *Karl Mark's* (1818–1883) crisis interpretations. Usually they emphasize the Marxian set of thoughts, which declares that in production the proportion of the production tools necessarily (and at a growing extent in the course of globalization) increases to the detriment of the labour force creating new value (the organic composition of production grows), therefore the profit rate shows a declining tendency (which must continuously be counterbalanced by new methods) on one hand, and the demand is insufficient on the other. During the time of the good boom, the contradictions accumulate in a latent way, and burst to the surface suddenly. And the periodicity of the crises is a consequence of the simultaneous mass renewal of the capital assets. Marx, however, in a deeper theoretical approach, attributes the depression to the basic contradictions of capitalism, the antagonism lying between the societal nature (organization) of production and the individual dispossession of the results of production (private property). This is the basic root of the contradiction between the organized nature of production and the anarchic nature of the market, and the contradiction of production and insufficient demand. *Josef Alois Schumpeter* (1883–1950) related the crises to the periodicity of the introduction of new technical achievements into production and the cyclic nature of innovations. He emphasized the positive side of the crises, that is the creation of the conditions necessary for a new boom period reflecting the new technological level, and the "creative destruction". According to *Nikolai Kondratieff* (1892–1932) and his followers, the adoption of certain technical inventions of great importance and the amortization and replacement of these (partly the international flow of factors and within that the international flow of capital and labour force migration) designate big cycles of 50-60 years that are divided into an emerging (A) and a descending (B) phase. Analyzing the American economy, *Simon Kuznets* (1901–1985) found that economic crises occur every 15-20 years, and explained these primarily by the cyclic nature of infrastructural investments. According to *John Kenneth Galbraith* (1908–2006), over-production is a consequence of the monopolist character of the economy. Depressions may be prevented by economic planning and the growing role of the state. He also wrote a book on the history of financial speculations. *Paul Samuelson* (1915–), in his Economics studied by several generations, considered the crises as immanent elements of capitalism. In the early editions he described in details, for example, the extremely short-term and profit-hunting, speculative psychosis, which leads, in today's term, to the development of bubbles. This part, however, was removed from the text of the editions published from the '60s. According to Samuelson, *Roy Forbes Harrod* (1900–1978) and *John Richard Hicks* (1904–1989), the Keynesian multiplicator and accelerator effect (and the retarded impacts of these) may divert economic growth from the equilibrium path. *John Maynard Keynes* (1883–1946) himself dealt with the possibility of crises, but in his general theory he considered them avoidable by an anti-cyclic state economic policy and its multiplicator effect.

In addition to the disequilibrium models of crisis explanations introduced above, there is another trend which places the focus at the anomalies of financial and fiscal processes. According to *Johan Gustav Wiksel* (1851–1926) and *Friedrich Hayek* (1889–1992), over-production is the consequence of over-capitalization. In his early book *Paul Krugman* (1953–) wrote that the economic actors keep governmental over-spending unsustainable. They count on the government to fill in the deficit by deficit financing and selling currency. The former causes inflation while the latter may end in currency speculation, which finally spoils balances.

Nouriel Roubini (1958–), who is the most known "predictor" of the present global world economic crisis in the US, explains the effects of financial and real economic processes in their interrelation.

2) THE NATURE AND HISTORY OF CRISES

The economy is cyclical and crises are the natural phenomena of the operation of capitalism. The first over-production crisis broke out in England in 1825. The first real world economic depression burst one and a half century ago, in 1847 (partly giving ground to the revolutions of 1848). Economic business cycles characteristically 7-10 years long.

At the beginning of the upswing and boom of the classic economic cycle, and due to fierce competition, new productivity increasing technics is introduced (intensive phase), and new production capacities are created as a result of prosperity (demand), then the production bases are extended only at the level of the existing technology (extensive phase). Production soars on the one hand, and so do the prices of the stock exchanges and the securities on the other hand. After some time, the capital – its financial and producing forms both – becomes "*over-accumulated*" from the profits of the boom incomes. The financial, exchange and production-service (capacity) "bubbles" come to life. Competition in production and services keeps growing, over-production (or rather over-capacity these days) starts, and technology increasingly substitutes for value-making labour force (press on wages). Supply does not meet solvent demand (on the market of products, then after a while on the market of securities). At the end of the boom profits start decreasing. The crisis, which appears at the surface as the loss of confidence, arrives ("the bubbles burst"). In the depression period huge losses of capital (devaluation) take place. Stock exchanges, share prices, prices of real estates, and securities incarnating real estates and serving speculation (only PC data today) fall, production capacities are closed, high numbers of less competitive (mainly smaller) producers go bankrupt, and the goods on stock are put on sale or eliminated sometimes. After that surplus securities not covered by any tangibles became devaluated and surplus capacities disappeared, equilibrium slowly recovers, and the possibility of starting a new cycle is created. (This is why Schumpeter called the crisis a "creative destruction".) *Upturn* often begins after some months of a *depression (stagnation or slow development) period* again.

The deepest global crises are at the same time epoch-making boundaries in the history of capitalism (they are more than just cyclic crises). The declining ten-

dency of the profit rate, which is typical of capitalism and accelerates in crisis periods, must partly be counterbalanced by a new operational method. The node crisis means that capitalism is unable to operate the earlier ways, and it must renew its ways of operation (Rozsnyai 1994). The depressions that are less deep, and do not reach each of the sectors and economic fields are also called medial or intervallic crises.

There was a nod crisis going on from 1873, during which capital concentration accelerated, and the capitalism directed by economic-financial monopolies was born. The Great Depression of 1929–33 confirmed state intervention (the prototypes of which appeared already in the war economy of World War I). The evolution of neoliberal capitalism directed by transnational companies, and so the completing globalization of the economic relations started with the crisis in 1974.

The node crises are more or less *connected* to one or another *industrial revolution.* The crisis in 1847 was preceded by the introduction of steam engines, and was followed by the rapid development of transportation means and the building of railway lines. After the 1870s mass production started on the base of the new results of physics (electricity) and chemistry, which made (in parallel with the sharpening of market competition, that is the fight for realizable profits) the concentration of capital in big production units, in the shape of monopolies, necessary. The Great Depression of 1929–33 was preceded by over-production also connected to belt-system production, and then recovery became possible partly with the help of the war industry boom preparing the new war. After World War II, the most important traction sectors were oil and chemical industries and car production. After 1974 it was the micro-electronic, telecommunication and transportation revolution that made the recovery and globalisation itself possible.

Across the development history of capitalism the basic nature of the crises remained, but their characteristics have changed a lot. It happened that not all of the developed countries fell into recession at the same time, and they "rescued" each other. The state interventionist Keynesian anti-cyclic economic policy decreased the amplitude of the cycles at a considerable degree after World War II, however, trade fluctuations became some more frequent in the '60s and '70s. Earlier it was the colonial system, today it is modern economic dependence and the debt problem which in many cases allow the shifting and spreading of the crisis phenomena upon the less-developed and the developing countries, *e.g.* during the regional financial crises between 1997 and 2000 (making them indebted, speculative capital movements, displacement of existing production lines, *etc.*, see Artner 2006, pp. 165–171.)

3) The peculiarities of transnational capitalism (globalization)

The nature of the present world economic crisis (several of its peculiarities) originates in some of the important features of transnational capitalism and those of the globalization era. These latter are as follows.

(1) *The evolution of a financial balloon never ever seen.* After the crisis in 1974 the rescue by displacement of the over-accumulated capitals (gained from international transactions and also manifest in high raw-material prices) that were condemned "written off" within the national frameworks during previous crisis periods started (indebtment of the developing and the socialist countries through temporarily negative interests and production displacement to the developing countries). This was supplemented by currency speculation in general and later the introduction of derivative (speculative financial) means. In 2008 speculative cash flows amounted to 24 times as much as the global GDP (own calculations based on the statistics of the Bank for International Settlements). The total cash flow (the above-mentioned plus bank credits and their instalments, direct investments, wage and profit transfers, foreign trade payments, *etc.*) reached almost hundred times as much as world trade. Through this, stock exchanges soared (in 1929 the capitalization of the New York Exchange amounted to 80 per cent of the American GDP, and to 160-180 per cent in the first decade of the new millennium – see the various data of *World Development Indicators*). The power of financial capital is more enormous than it was in the earlier phases of capitalism, and financial capital and producing capital are directly intertwined (*e.g.* of the 13 branches of General Electric the financial one is the far most profitable; the pension funds and venture funds finance production investments; the big companies, like Volkswagen, conduct huge transactions on the speculative money markets). It clearly shows the power of financial capital that money investments, the income of speculation – first in the history of capitalism – has become higher than that of production capital. This encumbered the financing of production activities and the states of decreasing incomes.

(2) Driven by competition and adapting to the demands of global production organizations (allowed by informatics, telecommunication and transpor-

tation revolution), *transnational companies (TNCs), producing-financial conglomerates huger than ever have evolved (mergers and acquisitions), which cooperate and compete at the same time.*

(3) The global liberalization and completion of economic contacts (including the outstandingly important ownership relations) resulted primarily in *the transfer of labour intensive production* to the emerging countries of good endowments (mainly to a dozen countries, first of all China). So the extensive and the intensive phase of the economic cycle "have been placed side to side" in the global scope: the technical and production tools condemned to be discarded had been kept in operation in the low-wage countries (in the form of direct investments), while technological renewal had become permanent in the developed countries, *e.g.* in electronics (see Rozsnyai 2002, pp. 88–89). *In the hierarchy of the capitalist centre, semi-periphery and periphery the production cycles (also depending on global processes) of country groups and regions unite in a global cycle not always in synchronicity but subjected to the developed countries in complicated interconnections.* According to Tamás Szentes, the global nature of the present crisis proves the "*only and organic* nature of world economy", including commercial, technological, credibility, *etc.* inequalities and the asymmetries of international ownership relations (italics in the original text, Szentes 2009, p. 62 and pp. 111–147). Not even China can escape from the impacts of the present crisis (since most of its industrial production and its exports is provided by TNCs operating in the country).

(4) Production transfer contributes to and serves global capacity over-accumulation. In developed countries both government policy and trade unions curb capacity reductions, or at least stop their final termination. Significantly bigger *surplus production capacities have evolved than in previous times.* One third of the global capacities remained unused in the automotive industry traditionally, and in the steel industry and the building materials industry after the turn of the millennium, and the situation is very similar in the electronic industry (where capacities disappeared at the beginning of the 2000s, after the informatics bubble had burst out). The maintenance of surplus capacities was made possible by the enormous financial muscle and money-market extra profits of the TNCs.

(5) Production transfer results in *the increased global competition of workers (and countries)* and so the reduction of wage costs and social benefits. Pri-

marily in the developed countries, technology ousts man from production, but industrial employment has been stagnating since the late '90s in the emerging economies, as well. Actually, real wages did not risen in the developed countries during the previous two decades, and considerably fell in the USA in the 1990s. The proportion of capital incomes in the GDP is growing to the detriment of work incomes worldwide (this has very much contributed to the sustainability of profit rates and the lengthening of economic cycles). *The weakening of consumer demand (and public savings) was overbridged by consumption stimulative credit dumping* (Szalai 2006, pp. 35–36).

(6) *Thus credit market, the stock of debts, has swollen enormous.* The decrease in the real economy incomes (compared to the financial incomes) and the lack of demand – not only in the case of the population – were surmounted by growing credits during the previous decades. Loans and the increase in the stock of debts were used to (a) counterbalance the stagnation or decrease in the income of the public or other earnings, (b) finance the production less profitable as compared to money incomes, (c) counterbalance the reduction of governmental incomes due to neoliberal policy. The data is terrifying: according to the bank of banks, the Bank of International Settlements in Basel, there was USD 585 trillion debt (credit loan) registered in 2008, which is ten times as much as the world's annual GDP!

(7) *Globalization allowed the evolution of much bigger international trade and balance-of-payments disequilibrium than in the former phases of the world economy* (Farkas 2002, pp. 142–144). The outstandingly high 6-7 per cent deficit of the US, which is predicted to rise, is unsustainable in the long run, and was and is financed by the rest of the regions, including Africa ("perverse capital flow").

(8) *The theory of "percolation" of wealth has not proved to be true: the income differences grew further in and between the countries causing serious social tensions.* In the seventies, the difference in the average GDP per capita between the developed and the developing countries was nineteen-fold, today it is at least twenty-five-fold. The difference between the end values are eighty-fold. According to the OECD, there are hardly more than 4 or 5 countries where income differences (measured with the Gini coefficient) has not grown between the "upper" and "lower" social groups over the previous decades (OECD online). Although as a result of China's development, the number of

definitely underfed has decreased by 2-300 million during the last decade, the present crisis has already "over-compensated" for this, and the number of the starving people has grown by 3-400 million (not in China). So today 1.2 billion fellow human beings are starving!

Thus globalization allowed multiple imbalances both at the national and the international level. *The transnational capitalist (globalization) system* – although there were intermediate cyclic crises at the beginning of the '80s, the '90s and the 2000s –, *kept the problems rolling forward, and the tensions, not even hidden in most fields, have been continuously accumulating through 30 years* (see more details Farkas 2002, pp. 107–185).

In order to keep this rolling sustained and to prevent an even bigger crisis, primarily the USA – contradictory to the neo-liberal principles (of the Washington Consensus ensuring the opening of markets for the strong ones) officially announced and called to account upon other countries – *applied a policy mix, and within that anti-cyclic demand inciting and liquidity creating means, sometimes even protectionism, mainly between 2000 and 2002* (*e.g.* the governmental economy incentive package of USD 150 billion, the increase in money amount [M2] exceeding 10 per cent or the raising of steel-industry duties). The low level of the inter-bank rate (its permanent reduction to 1 per cent after 2002) and the credit dump creating demand were the means of economy incentive, as well. So the Keynesian economy incentive steps made by the US in the present crisis (bank rescuing packages, creation of liquidity, production inciting and workplace creating activity, public works, *etc.*) are not without preliminaries.

4) THE GENERAL CHARACTERISTICS OF THE PRESENT CRISIS

The present serious and at the same time node crisis is the consequence of epochal economic processes clearly describable according to the above. The bigger the tensions in a system grow, the more probable that it will be broken apart by its internal powers. From the middle of the '90s, for example *Thurow*, in one case *Greenspan* and then *Soros, Krugman, Stiglitz, Wallerstein* and many others, and in the previous years even *the IMF warned us of the danger of a great crisis.*

The present crisis has *general peculiarities connected to the classic crisis process.* Paul Samuelson said that: "The present situation is very similar to the (Great – P.F.) Depression, and in some fields, the property market, for example, the conditions are even worse" (Prior to 2012… HVG (Weekly World Economy), January, 24., 2009, p. 8.). So contrary to all other rumours (and expectations) the present crisis is not merely a real-estate market crisis (as it has been clear since at least the autumn of 2007, the first bank problems). Contrary to all the earlier rumours, this recession has proved to be more than a credit-market crisis, and it has not only caused the general depression of money markets. The simple fact is that the crisis, after the property bubble had burst out, found its way through to the financial and exchange processes just as it had done in 1929. *The present crisis is a "general" over-production (and profit realization) crisis, similarly to the former serious recessions*. Over-production, however, does not only mean the over-production of goods, although it is also present in the current depression (car industry, electronics, building material industry, metal processing, *etc.*). *Over-production refers to capital in general, independent of its concrete form (money, security, goods or producer).* And, as it has already been mentioned, owing to the information revolution, the production of surplus stock is not typical any more, but the accumulation of surplus and unused production capacities (waiting for better times).

The present crisis "plays the same role" as the former ones: liquidation of capital surpluses and of economic disproportions, rehabilitation of the demand and supply balance allowing the start of a rise and the growth in the profit rate by the introduction of new techniques.

Many simplifying views of the present crisis have been born. These disregard the lessons of the epochal economy historic analyses as well as the peculiarities of contemporary capitalism and its depressions. (One of the most simplifying ones was the one gaining high publicity in the Hungarian media stating that the reason of the crises is that bankers are replaced after some time, and the new comers do not know the mistakes made earlier.) We can understand the nuances of the present global recession if we consider, in addition to the general phenomena discussed above, the peculiarities of current capitalism, as well.

5) THE PECULIARITIES OF THE PRESENT CRISIS

So the current global crisis possesses some important characteristics originating in the peculiarities of transnational capitalism (summarized above) *and exerting influence on the future. According to my opinion, these are as follows.*

(1) Globalization played an outstanding role in the evolution of tensions and disproportions as well as in their accumulation: the internationalization of the economic processes, the new wave of capital concentration, the

sharpening of global market competition, the neoliberal world order and the rolling of the global disproportions and tensions mentioned above – all these owe to the development of technological possibilities (the revolution in info-communication and transportation).

(2) The tensions and disproportions in trade, payments, capital flows, finances, debts and production capacities are much bigger than they were during the former crises. Thus – as it is provable by statistical data – the evolution of the crisis meant *the start of draining national and global tensions that exceeded even those having accumulated prior to the Great Depression of 1929–33*.

(3) This time the depression definitely set out from the capitalist centres, however, the rising countries increasingly building in the world economy and the underdeveloped countries are very much affected, as well (through *e.g.* capital withdrawal, the narrowing of export possibilities, the inflow of foreign direct investment and the reduction of subsidies).

(4) *The decisive element* of the evolution of this serious situation was *the differing transnational company interests, which were a lot less limited by governmental economic politics and the national borders than they had been in the times of the so-called welfare-state contribution capitalism.* The neoliberal game rules (*e.g.* in the WTO) and the principles of the Washington Consensus were practically created by the representatives of the TNCs and the Trilateral Commission (and were then turned into practice by international organizations like the WTO, the World Bank Group and others). Despite the warnings, the activity of the TNCs and the investor-venture companies were not regulated in order to ease global tensions (*e.g.* the reform bringing a stricter control of the money markets – the introduction of the "new financial architecture" –, which had been promised to be done during the crises of 1997 and 98 failed, the Tobin tax aiming at braking speculation was not introduced, the crediting-saving rules were made looser, and the interests were reduced to an irrationally low level, especially in the USA). So *responsibility* – as it could be clearly seen in the irresponsible real estate crediting practice – basically burdens *the investment corporations, the banks, the TNCs and the governmental economic politics representing their interests.*

(5) *The highly extended range of the global competition of the labour force, which atomized and (through the fear of capital withdrawal) weakened the workers' positions and the*

representation of their social interests, is an important feature. Nevertheless, trade union movements (Greece, Germany, Great Britain, Italy, France, *etc.*) and the voice of Social World Forum (Belem, 2009) strengthened as the crisis expanded. Developing countries also express their interests at the international consultations (*e.g.* the WTO meeting at Doha or the G20 at Davos, 2009). Still, especially in Eastern Europe but elsewhere too, demagogic, xenophobe and racist extreme rightist interpretations are gaining ground, which may lead to serious consequences (neo-Weimarian situation).

(6) Seeing the deepness of the depression today, it is clear that *the neoliberal idea of the self-governing market has at least been seriously leaked* even if not yet sunk.

(7) The size of the tensions and the discredit on the economic doctrines of this era show that *this is a node crisis again.* After the crisis ends, an at least partially new economic-social world order, a new model of capitalism will evolve.

(8) I lay great stress on and deeply analyze the fact that, especially in the central countries, *the evolving crisis is dealt with in a very differing way as compared to that in 1929–33.*

In 1929–33 – still in the spirit of the liberal doctrines of non-interventionism – capital loss was let loose, and protectionism became dominant. The value of capital masses fell to one tenth, debts – including international debts – disappeared, they were written off, production slumped into a deep abyss, and unemployment grew to five times as much as before.

In opposition to this, today *the developed industrial countries are trying to lessen the devastating impacts of the crisis by internal cash generation, capital injections, guaranties, the assuming of doubtful demands, nationalization and economy incentive programs* (the total amount of these is between USD 10 and 20 thousand billion). *It is a double-edged weapon, a trap situation!*

If in case the surplus (virtual) funds and surplus production capitals – or a part of them – are saved, and the US is allowed to dynamize its domestic consumption from external resources further on, the economic rise may start again without the (total) restoration of the equilibrium. Capital loss is, of course, serious even now (only on the exchanges and the housing markets it amounted to approximately USD 40-45 thousand billion, and virtual values uncovered with commodities or other tangibles equal to two thirds of global GDP "disappeared" although a share of these has been replaced since), still it is possible that the banks' and customers' financial means, which can be considered over-accumulated, and a part of the production-service capacities will, with more or less losses, be rescued before the equilibrium becomes restored, and the macro-economic disproportions remain existing at a certain level. In this case, global capitalism will go on rolling forward the problems that have accumulated over the previous 30 years, and as a result of this the next economic cycle may be relatively short, and the chance of the evolution of a new deep depression remains on the stage. The new good trade cycle period will again –at least partially – be a story of problem rolling.

And in case the governmental rescue policy is not applied, the consequences might even be heavier: the total collapse of the global capital system and production, the termination of international payments, thus the victory of protectionism, the writing off of all types of debts, the disappearance of ten or even hundred millions of jobs, a two-digit fall in GDPs, and the bursting appearance of social tensions. So mankind would face a total disruption similar to that of 1929–33. And the deep crisis leads, according to the historic experience, towards the rise of the extreme right, fascism (already experienced in Eastern Europe) and wars.

There is one more important remark to be made here: *developed countries make Keynesian governmental intervention steps viable primarily for themselves.* (As it has already been mentioned, over the previous years the West, and especially the USA, applied the neoliberal principles a lot less strictly than they expected their application from other countries.) The sketched demand incentive, internal cash generating, capacity and employment creating, sometimes nationalizing economic policy extending state incomes in the medium run are usually realized by the most developed countries, even at the expense of increasing state-budget deficit or state debt. (The state-budget deficit of the USA will amount to 13 per cent of the GDP in 2009, that of Great Britain is probably similar, and the most of the developed European countries' deficits will exceed the 3 per cent Maastricht threshold. *So in order to restore the equilibrium the most developed countries – at least some of them – are escaping forward. It is the most developed that divert from the neoliberal ideas, while they account the less developed for the principles of the neoliberal Washington Consensus in an almost unchanged way (e.g. in turn for debt management). They expect the policy of restrictions from the indebted poor and less-developed countries* even if the level of their state debt is not higher as compared to the GDP than that of many developed countries. *This is a double scale – originating in naked economic interests –*, and expresses the one-sided economic-market-power interests of the developed countries and the crediting banks. Liberalism-neoliberalism is the ideology of the strong and the interests of subordination –

we have known this since the second part of the 19th century, from Friedrich List, the famous economist of contemporary rising Germany.

6) THE PROBABLE COURSE OF THE CRISIS

According to the historic comparative analysis, in the cases of global growth crises, which were accompanied by financial depression and were at the same time strongly synchronized, recession lasted for almost two years on average, and GDP decreased by almost 5 per cent during the period. Then came the stagnation or the light upswing of almost the same length in the course of which GDP grew by only 2.8 per cent. The rapid rise started only after these two phases, that is 3.5 years, when the growth crisis had started. However, Europe is usually 1.5-2 years late in following the American uptrend. And it must also be emphasized that the total stabilization of the financial sector demanded 7(!) years in general.

In the present recession two contradictory facts must be considered. On the one hand, the recent crisis is deeper, on the other the Keynesian anti-cyclic money-injection economic policy may prevent its further deepening and protraction.

In the Institute for World Economics of the HAS we have drawn up three scenarios. (1) In the basic variant we postulate the fact that the course of the crisis will be similar to the – mentioned – tendencies of the previous decades' bigger recessions. Thus in the USA and the non-European rising countries the economy stabilizes from the spring of 2010 (from 2011 in Europe) and a rapid upswing may start from the summer or autumn of 2012 (from the end of 2013 in Europe). (2) According to the optimistic prognosis, after the stagnation-like state in 2010, 2011 will bring along a rapid uprise. In this case, the European Union is likely to follow the boom in the US from the end of 2012, but consolidation and a slow growth may start already in 2011. However, this scenario makes it quite likely that the next expansion period will shorten to 4-7 years. (3) According to the pessimistic variant, at least one of the triad of the developed countries will face economic collapse (a decline in the GDP exceeding 10 per cent), or the Japanese type of the lost-decade syndrome appears.

It is, however, to be feared that this consolidation is temporary, and the procession line of the crisis will take up a W form, so there may come another slump period. This is not at all impossible according to the experiences gained during the Great Depression in 1929–33, since the indicators of the New York Stock Exchange rose three times at a level exceeding 20 per cent, which were followed by falls in each case. Of course, we do not consider this possibility only owing to the historic experiences but because the real *risk factors* originating in the present crisis situation exist. These are the existing surplus production capacities, the demand (export and domestic market) limits, the deflation danger, at least in 2009, and its impact on the profits, the probable bankruptcy of a part of the consumers' and companies' debts, the failure of the clearing of the bank portfolios and so the possible further difficulties of the global banks, state indebtedness, and the narrowing of the possibilities of financing the latter. Nouriel Roubini, the lecturer of the New York University who became a star economist due to his predictions of the world economic crisis, has come to the same conclusions (Roubini 2009).

7) MODELS OF THE FUTURE

As it has already been mentioned, the present crisis is not merely financial, nor only overproduction, but a kind of a node crisis of global capitalism. Thus after the crisis winds up, *its operational method must surely change*. The extent of this change is not yet clear at all. Professor Lesley C. Thurow was right when said that capitalism used to change owing to big depressions or peoples' movements (Thurow 1995., pp. 310–311). The very weak trade-union and workers' movements will – probably – not play a strong effect, although the deepening of the crisis may bring about surprising developments. It is rather the economic pressures that will influence the socio-economic model evolving just after the crisis ends.

(1) In case the present crisis does not deepen as the bubble will be rescued and partially repumped, the model to come happens probably be an *altered neoliberal model*. It will be a subdued neoliberal model in which the financial flows, the banks, the investor and hedge companies and the credit rating institutions are controlled and regulated more strictly than they are today, and the financial-control authorities will be strengthened. The G20 decided to do so at their London meeting in April 2009. It is primarily the uprising BRIC countries (Brasilia, Russia, India and China) and perhaps South Africa, the developing countries in general, that will have an increasing impact on the international institutions and organizations. But all this cannot mean that their capability of interest enforcement will basically be strengthened. Probably, the state role played in economy organization and economy incentives will grow in the centres. However, the peripheries will still be forced (by various conditions) to conduct neoliberal policies.

(2) In case of a considerable deepening of the present crisis and a real economic

collapse, a model leaning to Keynesism is likely to come. The operational method of capitalism would change at the international level, as well. In this model the international financial bubble would more consciously be tried to be kept between limits, or perhaps even terminated. Multilateral institutions would be reformed, state debts written off in a rather wide range, development state would be given legitimacy, anticyclic state economic policy would be allowed everywhere in the world, global coordination of economic-policy activity would strengthen, environmental aspects could come forward, and some kind of a change of political order would also take place. While the first, neoliberal model fits into a US-directed unilateral world, this latter one wants a multipolar world.

(3) And there is a third model, which may only become possible in the long run, as the result of the social crises probably following the present depression: the *social/socialist/sustainable model*. Anybody can use the most beloved of the three words. This model will place, in opposition to the principle of individual responsibility, the creation and warranting of general employment and the individual and collective "social and economic rights" (the creation of high numbers of jobs, minimal wages, the right for housing, medical care, *etc.*), as well as strict environmental protection, including the spread and traction role of green technologies. In this model democracy allowed by economic security, the direct and indirect democracy practiced by each member of the societies, that is the democracy of the global world order will come, which means that the majority's interests will come into the limelight. This model lets much more space for community property forms than the one today even if the multi-sectorality of properties remains – more or less – existing. This is, however, a long-term vision.

Today, in the political dimension, it is fearful that, in case the crisis deepens, and in case unemployment keeps growing in the following 18–24 months, the dark clouds of rightist autocracy shouting for "order" will gather, as it is usual in chaotic crisis situations.

The historic past teaches us that these are the sketch lines of the alternatives we are facing. Of course, many variants of these models may evolve. And in addition, models do not usually occur in clear forms, they overlap or dissolve into each other.

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