

The current crisis outbreak and development Interpretations and perspectives for the world economy

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ABSTRACT

The paper characterizes the current crisis and discusses the perspectives of the world economy from an immediate and structural standpoint. Firstly, the analysis of the structural tendencies of profitability and accumulation after the overaccumulation crisis of the 1970s reveals that this is a crisis of the neoliberal restructuring processes, characterized by a return of the financial hegemony. The contradictory nature of neoliberalism was first manifested in the 2000-1 crisis, and showed more violently in the current one. Secondly, the immediate development of the crisis is described. The current cyclical recession in the United States is characterized by the bursting of the housing bubble, and the global financial crisis. Lastly, the perspectives for the world economy are addressed. From a structural viewpoint, it is contended that profitability and accumulation conditions in central capitalist countries do not hold for a long wave upswing; a massive devaluation of capital is a prerequisite of rapid accumulation, beyond the demise of financial hegemony. Despite the emergence of new poles of accumulation, leaded by China, the world economy faces a long period of slow growth and macroeconomic instability inasmuch as the contended hegemony of the United States economy, still the largest and most powerful, and the dollar, still the world money, is not being substituted, yet, by a new hegemonic center.

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1. INTRODUCTION

The paper characterizes the nature of the current crisis from a Marxist structural approach, which stresses the importance of the profitability and accumulation trends in the long-run economic development. The main hypothesis is that, though the current crisis is not related to the tendential fall in the rate of profit, it is a structural crisis that must be analyzed in the context of such structural trends. The paper also describes and analyzes the immediate development of the current crisis, paying attention to the concrete economic phenomena that spurred the crisis in relation to the structural conditions of valorization and accumulation. Finally, the paper also discusses the perspectives of the world economy in the aftermath of the crisis from an immediate and structural standpoint.

The paper is organized as follows. In section 2, the structural context of the current crisis is presented. The 1970s structural crisis is analyzed as a necessary antecedent of the consequent neoliberal restructuring, which is then described and analyzed. Finally, the 2000-1 crisis is identified as a precursor of the current one. Section 3 deals with the immediate development of the crisis. First, the cyclical factors that led to the crisis are first depicted, followed by its development into banking crisis and a world recession. Finally,

the responses to the crisis and its results are analyzed. In section 4, the perspectives of the world economy are analyzed, relying on the previous structural and immediate characterization of the current crisis.

2. THE STRUCTURAL CONTEXT OF THE CURRENT CRISIS

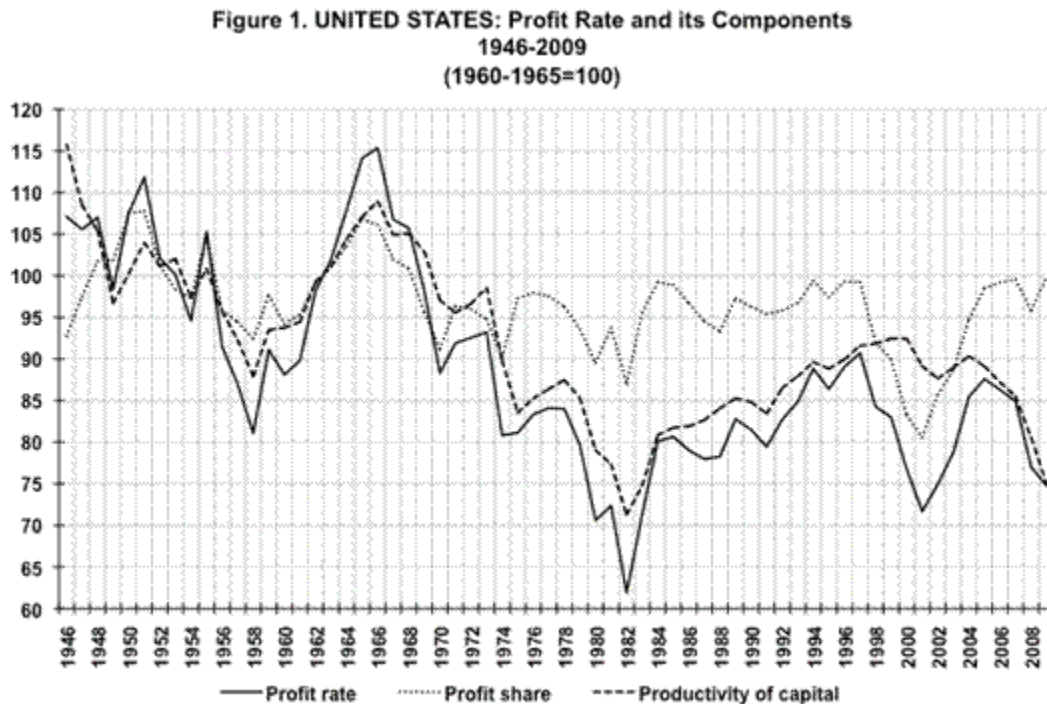
2.1 The 1970s profitability crisis

In order to portray the structural context of the current crisis, it is necessary to go back at least as far as the 1970s structural crisis of the world economy. This crisis was preceded by a long wave of rapid growth and accumulation. The intense technological progress associated to this expansive long wave provoked a biased technical change towards capital that expressed itself in a technical composition of capital rising more rapidly than labor productivity. As a consequence, the decline in the productivity of capital¹ caused a downward pressure on profitability, following the traditional Marxian scheme of the law of the falling tendency of the rate of profit.

In the U.S. economy, the materialization of the tendential fall in the rate of profit took place in the second half of the 1960s and the 1970s (Figure 1). The general rate of profit averaged 24.3% during 1946-1972, but diminished to an average of 18.8% in the next decade, what represents almost a 25% drop. The fall in the profit rate was explained in more than three fourths by the dynamics of the technology of production, that is, the decline in the productivity of capital, while income distribution explained the rest, given the slight drop in the profit share. The tendential fall in the rate of profit and its causation by the productivity of capital observed in the U.S. economy can be extrapolated to the world

¹ The productivity of capital is conceived as a measure of the technology of production of the capitalist social relation of production. It is defined as the ratio between the new value and the capital advance in production, both sides measured in monetary units (or, equivalently, socially necessary labor time); then, it is reciprocal to the organic composition of capital. This notion of productivity is alien to orthodox capital productivity; first, it is a social rather than physical productivity, as capital does not correspond to the physical means of production but to the capitalist relation of labor, measured by the advanced capital in production; second, it is a total rather than partial productivity, as the whole product, and not a part of it, is credited to this social relation.

economy, as the numerous empirical studies on national and multinational dynamics of the rate of profit have proved.²



Source: Cámara (2009b).

The fall in the rate of profit eroded the technical and social bases of the conditions of valorization of capital, leading to the collapse of accumulation and the crisis. Hence, the 1970s crisis was a overaccumulation crisis associated to a long-run decline in profitability, that is, the amount of capital (accumulated value) was excessive in relation to the surplus value created with the existing conditions of valorization. Moreover, the postwar system of state regulation and institutional framework became ineffective under the diminished profitability situation. Therefore, the crisis had a marked structural nature. (Flores y Mariña, 2004: ch. 4) Consequently, the 1970s crisis prompted a strong pressure for the devalorization of capital, as a consequence of the overaccumulation of capital, and the necessity of transforming the structural basis of capital valorization, as a consequence of

² For instance, Cámara (2008: 55-62) characterizes the global dynamics of the world economy –represented by United States, Spain and Mexico– and identifies a world pattern of tendential fall in the rate of profit caused by a biased technical change towards capital. Other investigations that confirm this pattern include Freeman (1991) for the United Kingdom; Li et. al (2007) for Japan, United Kingdom, Germany and France; and Marquetti et. al (2008) for Brazil, among others.

its structural character. The consequent restructuration of the world economy took the form of the neoliberal restructuring on a global scale.

2.2 The neoliberal restructuring

The neoliberal restructuring initiated in the 1970s as a consequence of the profitability crisis. Its double purpose has been, on the one side, to counteract the fall in the rate of profit through the search of alternative sources of profit in non-productive forms of valorization and in new valorization spaces; on the other side, to recover profitability through the increase in labor exploitation and the transformation of the technical basis of production. The process of restructuration has been commanded by the big corporations and their origin countries; particularly, it has been leaded in its most fundamental parts by the United States, given its hegemony in the world economy as a result of his influence as a nation in the world market (expressed in the dollar as the world currency), which is, at the same time, sustained in the relative domination of U.S. corporations.

The restructuring process in the last three decades has had multidimensional nature. On the one hand, the mechanisms counteracting the fall in the general rate of profit have endowed it with a dominant *neoliberal dimension* –expressed in the deregulation of goods and services and capital markets (specially, financial speculative markets) and in the privatization of productive sectors held by the state for their strategic importance, as ways to promote the nonproductive forms of valorization and new economic spaces of valorization– and a *globalization dimension* –expressed in the destruction of noncapitalist forms of production and the removal of barriers to the international flows of capital, as ways to create new geographical spaces of valorization. On the other hand, capital's struggle to recover the general rate of profit and its conditions of valorization has endowed the restructuring with an *anti-labor dimension*, expressed in the intensification and flexibilization of labor, and in the geographical and sartorial extension of wage-labor exploitation.³

³ The neoliberal globalization has gone through three stages: reactivation and expansion of the international trade since the second half of the 1980s; expansion of the international flows of financial investment, including direct investment, since the 1990s; and overexpansion of the speculative markets, specially the OTC (over the counter) derivatives markets, in the 2000s. (Mariña, 2008)

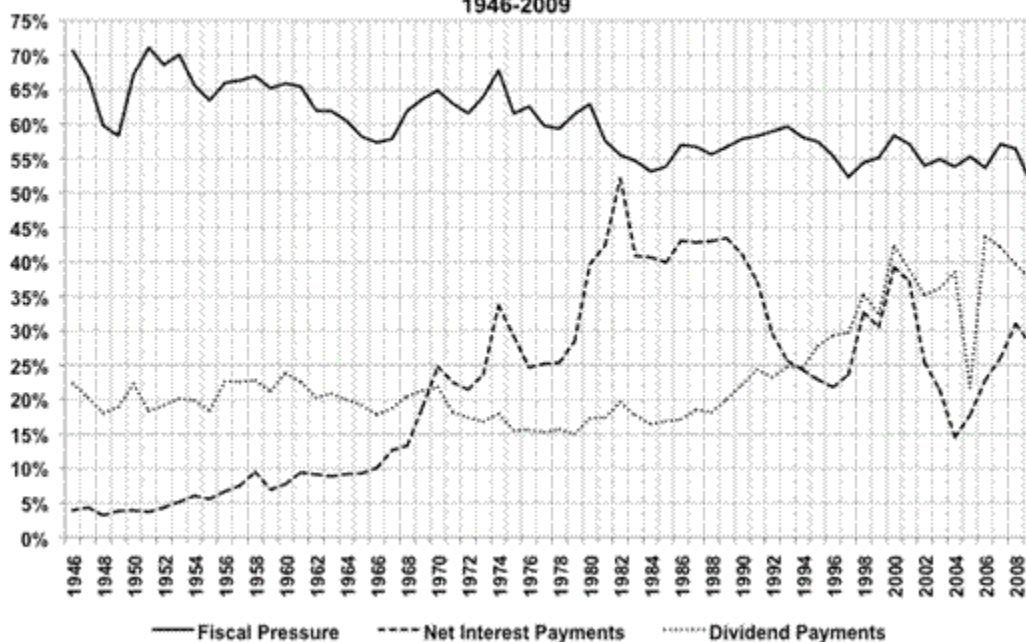
The structural transformation of the world economy, and the U.S. economy in particular, must be comprehended within the context of class struggle between capital and labor and among the diverse fractions of capital, and taking into account the crucial role of the state in the formation of economic policy. On the one side, the anti-labor policies implemented by the national states (deregulation of labor markets, imposition of wage ceilings, and dismantling of the social security systems) that shaped the new capitalist labor relations (negotiation of labor, wage and benefit conditions) have taken place in a context of diminished power of the working class in relation to the capitalist class. On the other side, neoliberalism must be understood as a restoration of the power of capital as property (lending and shareholding capital) in relation to capital as a function (industrial and commercial capital, and even the salaried management of corporations), sustained in the public policies of deregulation and flexibilization of markets.⁴

The most significant neoliberal transformation –at least, in its manifestation during the current crisis–, associated to the new role of the capital as property, is the so-called financialization of the economy,⁵ resulting from the activation of spaces of nonproductive profit in the wake of the falling profitability in the productive spaces of valorization. The restructuring, in its dimension of global deregulation, made possible the quantitative, qualitative and spatial expansion of the forms, mechanisms and spaces of financial speculative valorization; in its anti-labor dimension, opened new spheres of nonproductive valorization like the rapid expansion of consumer credit to finance aspects of the reproduction of the labor force that were privatized (education, health, retirement). (Dos Santos, 2009) Therefore, the growing financial hegemony in the last decades has resulted both from the structural crisis itself and the restructuring processes instigated by it.

⁴ This understanding of neoliberalism follows the interpretation of Duménil and Lévy (2003), who define it “as a specific power configuration within capitalism, in which the power and income of the upper fractions of ruling classes have been restored after a period of decline. It can be described as a new financial hegemony.” (*ibid*: 2) In concrete, it consists mainly in an increase in the power of the financial ownership of companies, where lending and shareholding become complementary tools in the hands of the *finance*, that is, the upper fraction of the ruling classes and their institutions of power. (*ibid*: 2-4)

⁵ A controversial literature has arisen around the notion of *financialization* and its meaning. Two opposing views are deployed in Lapavistas (2009) and Astarita (2009: ch. 4).

Figure 2. UNITED STATES: Fiscal Pressure, Net Interest Payments and Dividend Payments 1946-2009



Source: Cámara (2009b). The fiscal pressure is calculated as ratio of the sum of direct and indirect taxes paid by corporations and gross corporate profits. The net interest payment and the dividend payments are shown as a percentage of the after tax profits.

The states played a prominent role in the restoration of the power of capital as property through the configuration of economic policy. On the one hand, neoliberal fiscal policy reduced the fiscal pressure on companies (Figure 2) and highest incomes, which implies, among other things, a greater recovery of the profit rate after taxes than the general one. (Cámara, 2009: 15) On the other hand, the neoliberal monetary policy was marked by the rise in 1979 of the nominal and real interest rates, intended to stop the price spiral, whose last aim was the protection of the interest of lending capital in detriment of the financial conditions of the productive investment of industrial companies (Figure 7). This rise is reflected in a higher interest burden on industrial profits (Figure 2). The growing power of shareholding capital is also evident, firstly, by the increase in the portion of corporate profits paid as dividends since the 1990s in United States, favoring the income of stockholders and reducing the internal financial capacity of corporations (Figure 2); secondly, the rising stock securitization in the economy expresses itself in the feverish

growth of the stock markets indexes around the world since the 1980s and, in a more accelerated manner, since the second half of the 1990s (Figure 10).⁶

The neoliberal restructuring of the world economy, headed by United States, has also aimed to recover the general rate of profit. Although the fall in the rate of profit that led to the profitability crisis was caused by a biased technical change, the immediate mechanism set in motion since the 1970s for its recovery was a frontal attack on the working class, with alternating phases of reduction and stagnation of real wages. In United States, the hourly wage of production workers, who represent about 80% of the total, contracted over 17% from 1973 to 1995, and, nowadays, it has not yet recovered the loss of purchasing power. Also, the average hourly real wage stagnated in the 1970s and has grown afterwards at a moderate pace. The combination of both wage patterns implies a modification in the distribution of the wage income in favor of the upper layers of wage-earners, connected to the management of corporations. (Cámara, 2009: 10-12)⁷ In spite of the increase in the wage and salary income of these privileged layers, which should be considered as capitalist income in most cases, there has been a mild recovery in the profit share during the neoliberal globalization (Figure 1).

The recovery of the general rate of profit has also been pursued through the technological component. Capital productivity in the United States experienced a remarkable recovery in the 1980s and 1990s, possibly related to the strength of the information and communication technologies investment (Figure 1). (ibid: 13-14; Duménil and Lévy, 2007: 219-220)⁸ However, the positive dynamics of technical change were truncated since the 2000-1 crisis, when the growth rate of the investment in equipment

⁶ The unsustainability of this growth was manifested during the 2000-1 crisis, when the stock exchange lost nearly half of its value, and during the current crisis, which jeopardizes the recovery in the indexes during the last five years.

⁷ The income of the corporations' top management, including bonuses and stock options, has been under close scrutiny during the current crisis, especially in the financial sector. Their accounting as wages in the national systems of accounts is arguable, to say the least, from the class perspective of the labor theory of value.

⁸ The investment in information and communication technologies grew from a quarter of the investment in equipment at the end of the 1970s to more than 50% in 2000. The growth rate of the investment in information and communication technologies was seven times the growth rate of the rest of the investment in equipment, while it hardly was three times in the two previous decades.

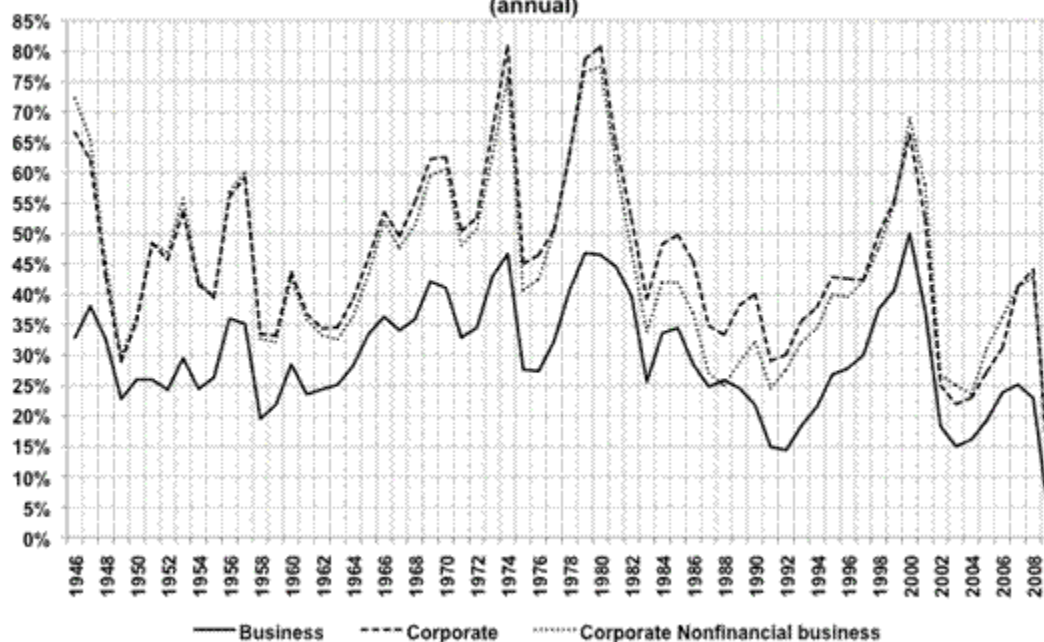
collapsed as a consequence of the end in the impulse of the investment in new technologies (Figure 7).

2.3 The neoliberal long wave of slow growth

The capitalist restructuring process associated to the neoliberal globalization of the last decades has had contradictory results and effects in the United States and in the world economy. First of all, it has consolidated a new hegemony of capital as property, which has entitled a recovery of the relative income of the richer social fractions in the United States, after a decline during the postwar Keynesian compromise. (Duménil y Lévy, 2004) Additionally, it has also been successful in the sectoral and spatial extension of the influence of capital and in the deterioration of the noncapitalist economic options. Finally, the neoliberal restructuring has implied a recovery in the profitability of capital, though in different extents. (Cámara, 2008: 55-57) Nevertheless, the general rate of profit is far from reaching the average postwar levels; in the case of United States, it has averaged 20.0% since 1984, slightly higher than the 1970s crisis level but significantly lower than the postwar boom level (Figure 1).

The partial nature of the recovery in the general rate of profit is the main explanation for the weakness in the process of accumulation during the last decades in the world economy. Nonetheless, the financial speculative and anti-labor bias of the neoliberal restructuring has obstructed further the reactivation of the productive accumulation, deteriorating the intrinsic mediation between profitability and accumulation, expressed, among other things, in the increasing drain of profits from enterprises in the form of interest and dividends (Figure 2). This mediation is best measured in the investment coefficient, that is, the proportion of profits available for investment that are effectively invested productively (Figure 3). Besides its fluctuating behavior, it is observed a pronounced decline during the 1980s that has not been offset in the next decades. As a consequence, the investment coefficient has been notably lower during the neoliberal period than during the Keynesian period; 17.5%, 19.4% and 23.0% relatively lower for the business sector, the corporate sector, and the corporate nonfinancial businesses, respectively.

Figure 3. UNITED STATES: Investment Coefficient
1946-2009
(annual)

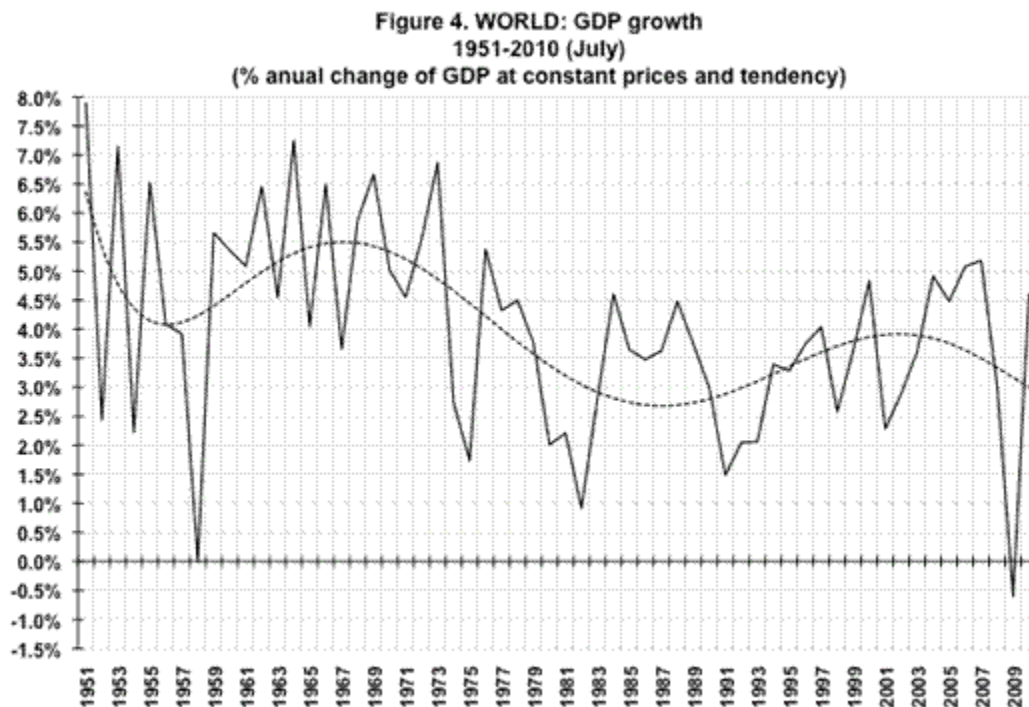


Source: Cámara (2009b). The investment coefficient is calculated as ratio of the net investment and after tax profits.

In the first place, the financial bias of neoliberalism implies that the high profitability of the nonproductive investment restrains productive investment. The anti-labor bias expresses in a generalized labor precariousness at a global scale as a consequence of the deregulation and intensification of labor, and in the devalorization of the labor force; both phenomena have restrained the global diffusion of the technological innovation in the processes of production, impeding the growth of the labor productivity and of the recovery of profitability via the relative surplus value mechanism. On the one hand, the possibility of reducing unit labor costs as a consequence of the precarization of labor has created a bias towards living-labor-intensive production techniques in a wide range of industries.⁹ On the other hand, the diminished relative dynamism of the wage goods markets, as a consequence of the contraction of the workers' purchasing power, in relation of the luxury goods for the upper income layers has generated a relative bias towards the innovation in product techniques in order to create new products or differentiate continuously the

⁹ This bias laid the foundation for the development and consolidation of the world *maquiladora* industry. (Klein, 1999: ch. 9-11)

existing ones.¹⁰ In addition, the neoliberal state has abandoned the important role of stimulating the productive investment.



Sources: World Trade Organization (WTO) (2010), *International Trade Statistics*; International Monetary Fund (IMF) (2010, April), *World Economic Outlook Database*; IMF (2010, July), *World Economic Outlook Update*.

The low levels of the general rate of profit and the neoliberal inhibition of productive investment has engendered a structural situation that has hampered a sustained economic growth. As a matter of fact, the world economy has been undergoing a long period of slow growth since the 1970s; the average annual growth rate of the world GDP shrank to 3% in the 1974-2009 period, compared to a 5% during 1951-1973 (Figure 4). This structural situation, in unison with the possibilities opened by the deregulation of markets, has brought about a growth leaded by the expansion of consumer credit and an overexpansion of the most dynamic profitable sectors, as the new technology and the real estate sectors, causing the generation of recurrent speculative bubbles. Also, it has brought about, in unison with the systematic volatility characteristic of the nonproductive

¹⁰ The mass production for mass markets, the characteristic form of articulation between social production and consumption of the Fordist-Taylorist-Keynesian regime of accumulation, hegemonic during the postwar boom, which implied a sustained growth of employment and workers' purchasing power, has given pace to

investment forms, a severe macroeconomic instability along the neoliberal long wave of slow growth, which has given rise to critical episodes such as the 1987 stock market crash, the tequila effect in Mexico, the Asian, Russian and Argentinean financial crises, the 2000-1 crisis and the current one.¹¹

2.4 From the 2000-1 crisis to the current crisis

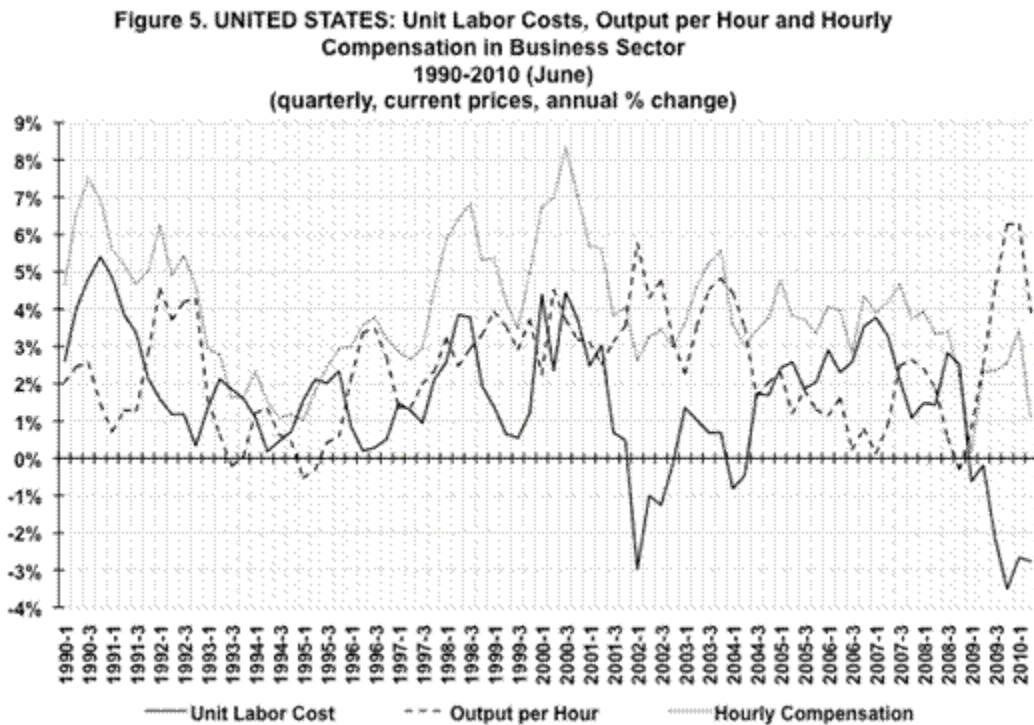
The current crisis is the most manifest sign of the contradictory character of the neoliberal restructuring; however, it has shown signs of exhaustion since the 2000-1 crisis. This economic recession, which took place in the U.S. economy from the second half of the 2000 to the last quarter of 2001, not only put an end to long and vigorous expansion initiated in 1996 (the Clinton boom), but to the longer expansive period that developed from the second quarter of 1991, with a couple of cyclical interruptions (Figure 8).¹² This recession is associated with, on the one hand, the weakening of the flow of corporate profits starting in 1998, as a result of the rise in unit labor costs caused by a greater growth of the hourly compensation than the output per hour (Figure 5); and, on the other hand, to the end in 1999 and 2000 of the explosive expansion of stock markets during the second half of the 1990s, in particular in the New York Stock Exchange (Figure 10) –triggered by the information technologies bubble related to the *new economy* (dot.com)–, that decelerated the private consumption and, mostly, the productive investment, which had been supported by the rising indebtedness levels associated to the overvaluation of the household and business financial assets. (Mariña, 2002 and 2003a; Moseley, 2004) The contraction in the stock exchange during 2001 and 2002 reinforced the plunge in the productive private investment between 2001 and 2003, bringing to an end its expansion

flexible and continuously differentiable production “leaded” by the preferences of high income consumers. (Flores and Mariña, 2004: 233-237)

¹¹ In addition, some contradictory effects of neoliberalism in United States are related to the fact that it was led by the U.S. corporations. The asynchrony between the state and corporations logic explains the set of internal disequilibria of this country –household, business indebtedness, trade and fiscal deficits, and government and country indebtedness– that jeopardize its economy.

¹² Since 1991 economic activity went through two short periods of relative contraction: during the first three quarters of 1993, with an unemployment rate still decreasing, and in 1995, when the unemployment rate slightly increased, though it restored quickly its downward pattern. For this reason, both contractions were not officially considered as recessions by the National Bureau of Economic Research (NBER), and the long period between the second quarter of 1991 and the first of 2001 is regarded as an expansion.

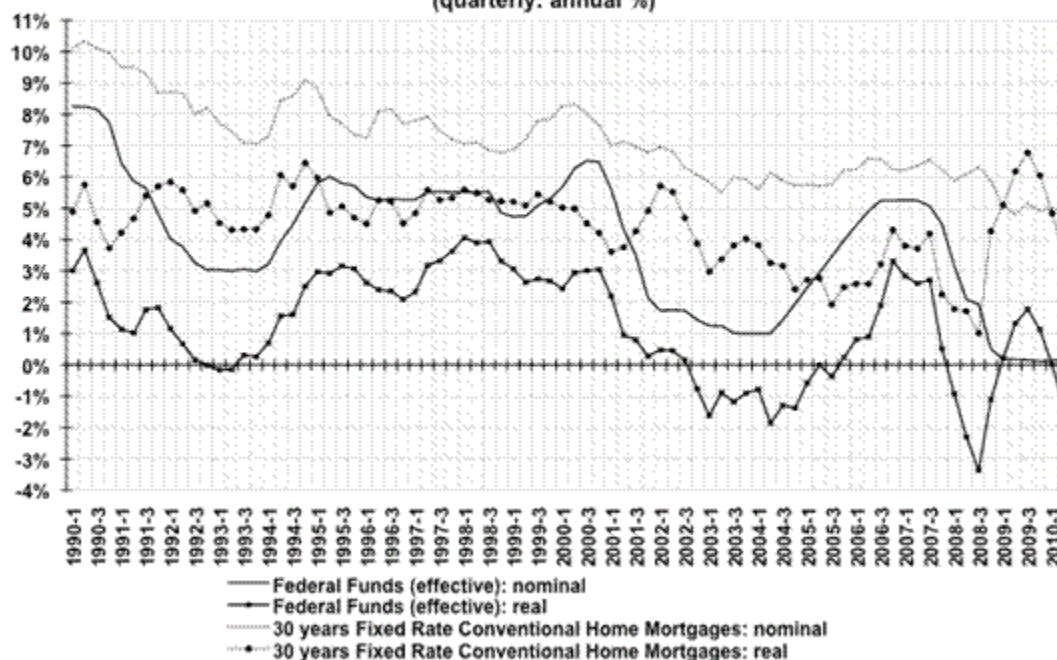
during the 1990s, which laid the foundation for the rising dynamics of labor productivity since 1996 (Figure 5 and 7).



Source: Major sector productivity and cost index, Bureau of Labor Statistics (BLS), U.S. Department of Labor.

The anticyclical strategy of the new G.W. Bush administration centered on a sharp drop in the interest rates (Figure 6) between 2001 and 2003, and in an expansive fiscal policy that led to a rapid increase of the public deficit. These measures contributed to a short and mild recession. However, the reactivation of the U.S. economy since the first quarter of 2002 did not rely on the recovery of the productive investment, but on the residential investment. The latter was spurred by the housing bubble, which started in 1997-8 but strengthened with the reduction of mortgage interest rates from the second half of 2003 till 2005.

Figure 6. UNITED STATES: Nominal and Real Interest Rates
1990-2010 (June)
(quarterly: annual %)



Sources: *Selected interest rates, Board of Governors of the Federal Reserve System (FRS).*

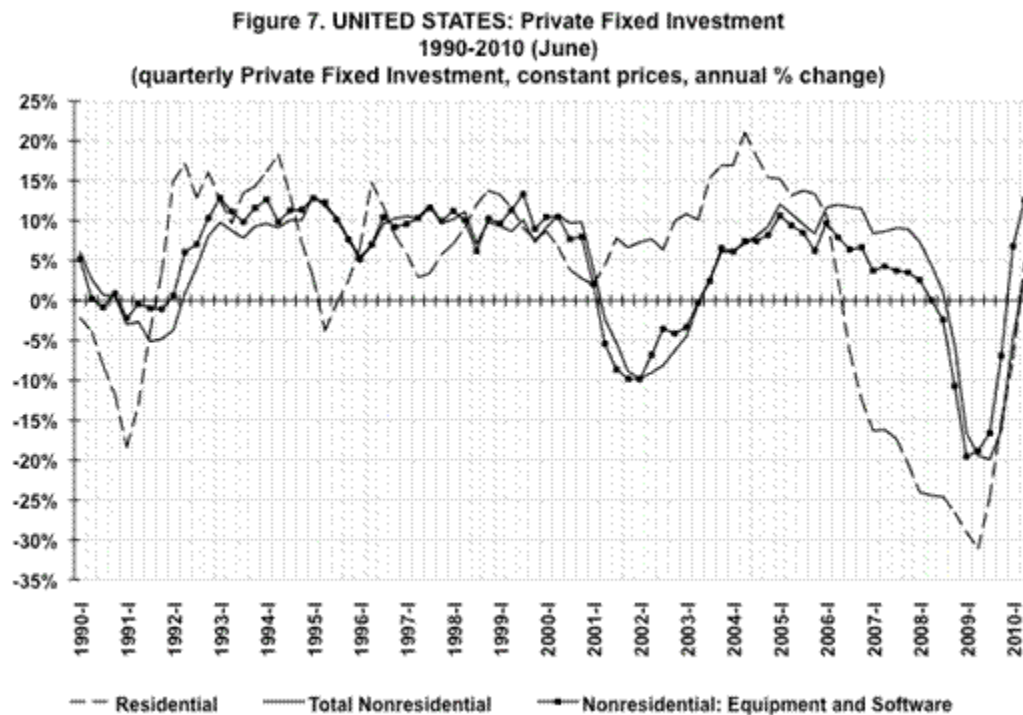
The development of the housing bubble was grounded in the general deregulation of financial markets initiated in the 1980s,¹³ which produced a rising securitization of mortgages.¹⁴ The mortgage sale from the lenders to the investment banks created the liquidity to maintain the expansion of the credit supply, while the delinquency risk transfer to the investment banks (or to the investors that acquired the securities issued by the investment banks) gave rise to the development of innovative practices oriented to the expansion of the volume of mortgages and their origination fees that diminished the requirements of borrowers' solvency.¹⁵ These practices spurred an explosive expansion of

¹³ The deregulation process of the banking and financial system in the United States concluded with the passing of the Financial Services Modernization Act, which repealed the second Glass-Steagall Act (the Banking Act) in 1933. The latter had strictly separated the activity of commercial and investment banks, as a consequence of the lessons of the 1929 crack and the 1930s Great Depression, in order to inhibit the speculative activities.

¹⁴ The mortgage securitization consists in the mortgage sale by the lender (commercial bank and mortgage companies) to investment banks, which in turn get rid of them through Special Purpose Vehicles (SPV) or Entities (SPE). These entities issue securities backed by mortgages (MBS) or any type of credit asset (ABS) that are sold to diverse kinds of investors: mutual and pension funds, hedge funds and foreign investors (banks and pension funds). (Mariña, 2009)

¹⁵ These practices included, among other things, the elimination of income and assets documentation, and initially low "teaser" rates of interest reset after 2-3 years. (Moseley, 2008)

the mortgage market –especially subprime–, of the demand and construction of new homes, and of the housing prices since 1997, though reinforced during 2001-4 as a consequence of the low interest rates, and the combination of a relative recovery in the purchasing power of labor compensation since the second half of 2001 and the increase in the employment since the end of 2003. The house prices spiral made possible the refinancing of mortgages and encouraged the speculative growth of the mortgage market that ended in 2005-6. Also, it strengthened the expansion of consumer credit both as a result of the wealth effect of owning a house and of the mortgage equity withdrawals. (Moseley, 2008: Mariña, 2009)



Source: National Economics Accounts, Bureau of Economic Analysis (BEA), U.S. Department of Commerce.

To sum up, the expansion of the housing bubble, due to its positive effects on consumption and residential investment (Figure 7), was the main catalyst of the short recovery that ended into the current crisis. (Moseley, 2008) Thus, the features of the 2000-1 crisis, related to the burst of the speculative dot.com bubble, and the qualitative and quantitative features of the subsequent upswing, pointed to the limits of the neoliberal restructuring that give support to the 1990s expansion. The current crisis, though it might not imply its death, has violently worn away the pillars of neoliberalism.

3. THE IMMEDIATE DEVELOPMENT OF THE CURRENT CRISIS

3.1 The outbreak of the crisis

The current world crisis had as immediate combined detonating causes, firstly, the slowdown of economic activity in the United States (US) since the third quarter of 2006 and the consequent rise of unemployment rates since the first quarter of 2007 (Figure 8) that resulted in the cyclical recession that fully outbroke at the end of 2007¹⁶. Secondly, the end of the housing bubble that started to deflate in 2006, fully bursting in 2007.

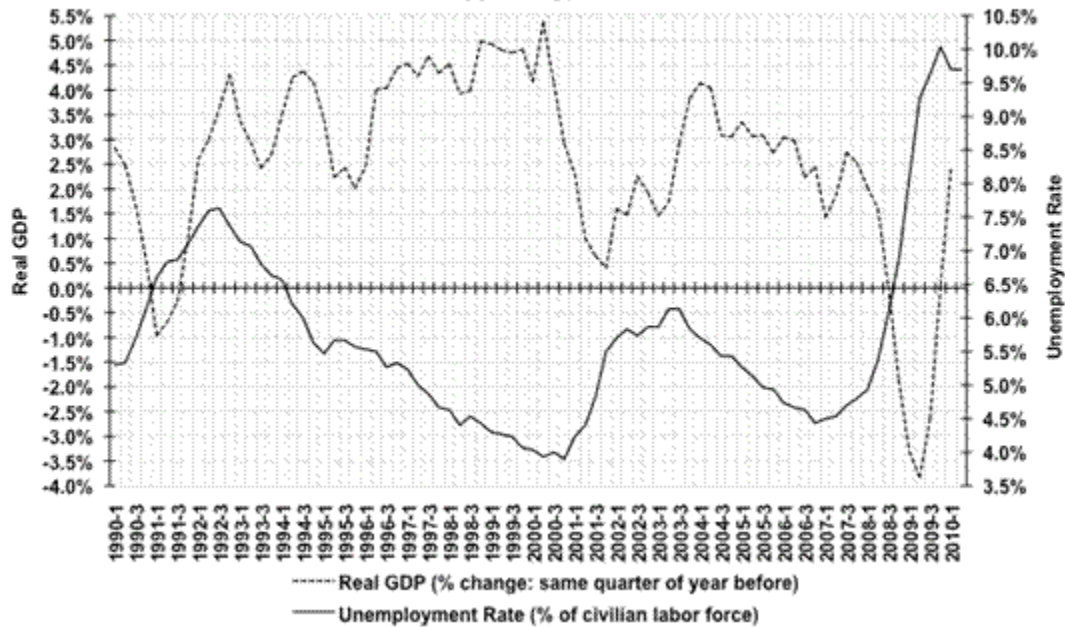
The slowdown of fixed investment (Figure 7) and GDP was caused by the weakening of the profits flow since the third quarter of 2004 and during 2005-2006 that resulted from increasing unit labor costs, due to the slowdown of productivity in relation to wages (Figure 5), and energy costs, because of rising oil prices;¹⁷ furthermore, by the rising interest rates due to the abandonment of the Federal Reserve of the adaptive monetary policy it had followed since 2001 (Figure 6).¹⁸ The recessive tendencies were reinforced by the negative effect on household consumption demand of the progressive slowdown of the housing bubble since 2006, induced by the weakening of economic activity and employment and by the raise of home mortgage interest rates in that same year.

¹⁶ The official announcement of the beginning of the recession in December 2007 did not occur until December 2008. (NBER, 2008)

¹⁷ Board of Governors of the Federal Reserve System, *91st Annual Report 2004*, Washington, D.C., EUA, April 2005, pp. 46-47 y 22-24.

¹⁸ The Federal Reserve sustained that the objective of the increase of federal funds rates since the end of 2004 and during 2005-2006 was to face inflationary pressures derived from high energy costs and, potentially, from the raising rate of utilization of productive resources. Board of Governors of the Federal Reserve System, *91st Annual...*, *op. cit.*, pp. 4-7; *92nd Annual Report 2005*, Washington, D.C., EUA, June 2006, pp. 3-7; *93rd Annual Report 2006*, Washington, D.C., EUA, June 2007, pp. 5-6.

Figure 8. UNITED STATES: GDP and General Unemployment Rate
1990-2010 (June)
(quarterly)

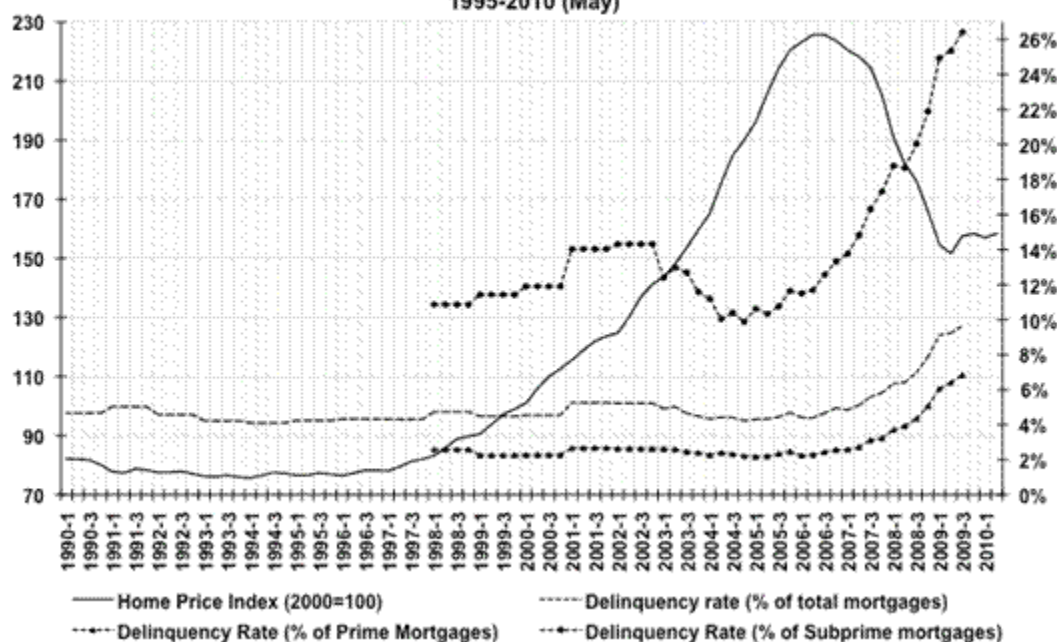


Sources: U.S. Department of Commerce, Bureau of Economic Analysis (BEA) (2010), *National Economics Accounts*; U.S. Department of Labor, Bureau of Labor Statistics (BLS) (2010), *Current Population Survey*.

3.2 The banking crisis

The burst of the housing bubble in 2007 was caused by a set of factors that cumulatively weakened the conditions of its expansion. The increase of interest rates during 2005, specially mortgage rates since the fourth quarter (Figure 6) provoked an increase of mortgage delinquency rates -specially subprime- since the end of 2005 and of foreclosures during 2006 (Kregel, 2007), slowing down the expansion of the mortgage market and of the demand for houses and ending the raise of home prices in 2006 (Figure 9). Stagnation of home prices in 2006 and its decrease in 2007 blocked mortgage refinancing, particularly of low-income debtors who would start paying interests in 2007, as well as the expansion of household consumption that greatly depended in home revaluation. All these, reinforced by the negative effects of the slowdown of economic activity on employment, rapidly increased mortgage foreclosures, which caused, in the summer of 2007, the beginning of a general crisis of the US banking and financial system.

Figure 9. UNITED STATES: Housing Bubble
Home Price Index y Mortgage Delinquency Rates
1995-2010 (May)



Sources: The McGraw-Hill Companies, *Standard and Poor's (S&P)/Case-Shiller Home Price Indices*; United States Department of Housing and Urban Development, Office of Policy Development and Research, *U.S Housing Market Conditions*.

Although the mortgage meltdown initially affected US mortgage banks and companies, its effects quickly spread to the owners of all types of financial derivatives directly or indirectly associated to the housing bubble, and to investment banks.¹⁹ The burst of the housing bubble in the US provoked a global crisis of the US and the world banking and financial systems because of the high interdependency of the operation of international institutions and markets after thirty years of continuous financial deregulation (Mariña, 2009).

¹⁹ IMF estimated losses associated to the financial crisis during 2007-2010 in 2.8 billion (US trillion) dollars, of which 1.3 billion are losses up to the first half of 2009 and the rest were estimated losses up to the end of 2010. Of total losses, two thirds correspond to loans and the rest to titles. Only about one fourth is related with home mortgages; the rest correspond to consumer, commercial, corporation, government and rest of the world debt. The rate of financial losses is 8.2% for the US, 7.2% for the United Kingdom, 3.6% for the Euro zone, and 5.0% for the global economy. Cf. International Monetary Fund, *Global Financial Stability Report. Navigating the Financial Challenges Ahead*, Washington, DC, USA, World Economic and Financial Surveys, October, 2009.

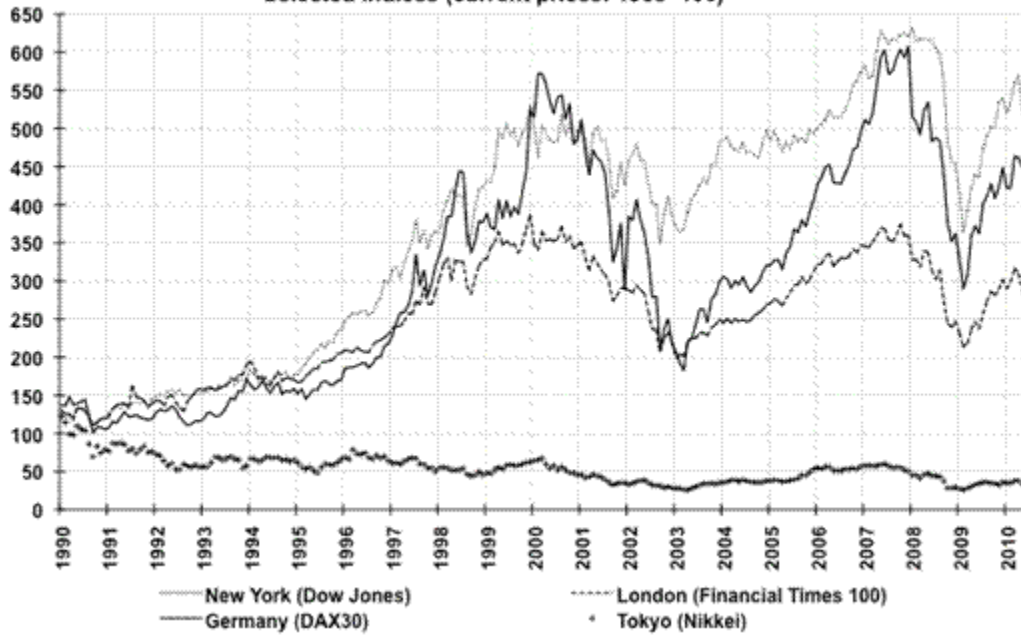
3.3 The world recession

Losses and consequent decapitalization of financial bank and non-bank financial institutions (pension and hedge funds) due to the burst of the housing bubble in the US were the immediate cause of the global banking and financial crisis. Moreover, the general direct and indirect exposure -in many cases, not very transparent- of financial and non-financial companies in the derivatives markets, together with the amplification of recessive tendencies, provoked a general distrust that generated a global liquidity crunch in credit markets. The progressive credit restrictions, to investment and consumption, generated realization problems that reinforced cyclical recessive tendencies. At the end of 2007, the beginning of the recession in the US and in the rest of capitalist centers (Japan and the European Union) was confirmed.

The collapse of the stock prices of the banking sector dragged down stock market's indices in the capitalist centers since the last quarter of 2007 (Figure 10). In spite of the rapid decrease of interest rates and liquidity injection by central banks, stock prices of non-banking sectors also collapsed as their profit balances were progressively affected by the losses of their financial investments, as well as by diminishing sales due to the deepening of general recessive tendencies. During 2008, the global banking and financial crisis worsened until the crack of the stock markets in October 2008, which continued until February 2009. This crack reinforced in 2008 the recession in capitalist centers, which evolved in an industrial crisis because of the credit crunch and the fall down of demand that industrial and commercial companies faced. In the last quarter of 2008, the recession in the central economies upgraded to the level of a depression with the start of absolute contractions of economic activity which resulted for the whole of 2008 in a strong contraction of GDP growth in the US (0.4%) and in the European Union (0.9%) and an absolute contraction in Japan (-1.2%) and for 2009 a strong contraction in all of them: -2.4%, -4.1% and -5.2% (Figure 11).²⁰

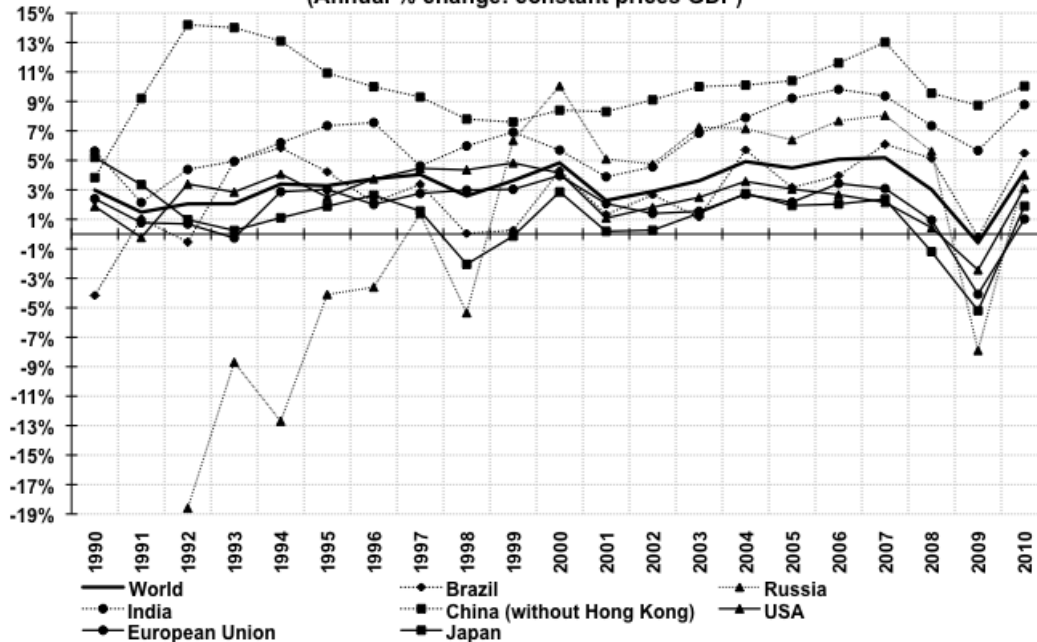
²⁰ IMF (2010, July) *World Economic Outlook Update*.

Figure 10. WORLD: Principal Stock Markets
1990-2010 (June)
Selected Indices (current prices: 1988=100)



Source: Yahoo! Finance.

Figure 11. WORLD AND SELECTED COUNTRIES: Real GDP
1990-2009 and projections for 2010
(Annual % change: constant prices GDP)



Sources: International Monetary Fund (IMF) (2010, April), *World Economic Outlook Database*; IMF (2010, July), *World Economic Outlook Update*.

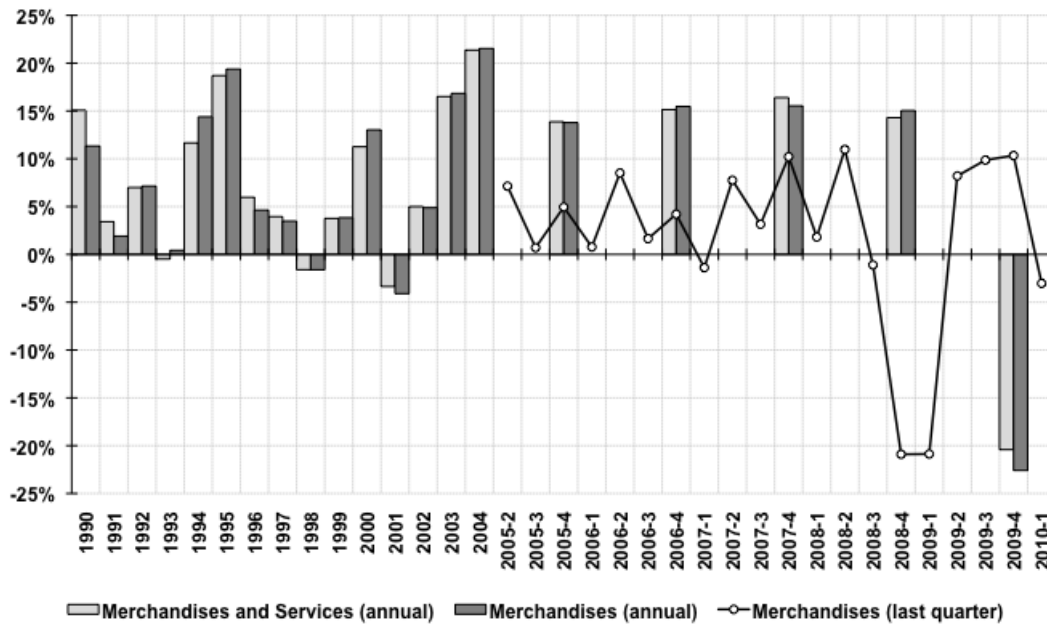
The exhaustion of neoliberal restructuring in the US has resulted in the relative weakening of its global hegemony, which was central in the neoliberal globalization. New

dynamic poles of accumulation have arisen in the semiperipheries of the world market: particularly, China, India, Brazil and Russia. (Mariña, 2008b).

The global banking and financial crisis of 2008 affected directly the "real" dynamic of all economies. Firstly, because of the credit crunch and the collapse of stock markets worldwide. The contraction of economic activity in central countries, diminished its imports demand and detonated a strong reduction of international trade during the fourth quarter of 2008 and the first quarter of 2009 (Figure 12), that has specially affected exporting countries, particularly oil exporters. Therefore, the crisis in the central countries extended, through banking, financial and commercial circuits, to the whole world, although with widely heterogeneous effects. Among the new dynamic poles of accumulation in the semiperipheries of the world market, Russia has been the most affected: in 2008, GDP growth decreased to 5.6% and in 2009 it had a strong -7.9% contraction. Brazil's GDP decelerated in 2008 to 5.1% and had a weak decrease of -0.2% in 2009. In contrast, India and China, sustained high growth rates in 2008 and 2009: India, 6.4% and 5.7%; China, 9.6% and 9.1%. The net result of these differentiated tendencies was a deceleration of GDP growth in 2008 (3%) and an absolute contraction in 2009 (-0.6%) (Figure 11).

So, the global banking and financial crisis determined the propagation to the whole world of the recession that started in the central countries. Because of its functional, sartorial and spatial extension, the current crisis is a general capitalist crisis. It involves all economic spaces and valorization mechanisms of the different concrete forms of capital; in particular, it has affected transnational financial corporations, which combine productive, commercial, credit and speculative activities.

Figure 12. WORLD: Exports
1990-2010 (March)
(Annual and quarterly % change)



Sources: World Trade Organization (WTO) (2010), *International Trade Statistics*; International Monetary Fund (IMF) (2010, April), *World Economic Outlook Database*.

3.4 The aftermath of the crisis

The massive resources injected since 2008 and 2008-2009 to rescue the banking and financial systems and, also, industrial corporations, together with de anticyclical policies instrumented to boost demand, had positive effects. The negative tendencies in stock markets stopped in March 2009, starting a recovery that lasted up to April 2010 (Figure 10). Nevertheless, in that last month, current price indices were still below the peak they reached in 2007: -20% (London Financial Times 100), -13% (New York Dow Jones), -26% (Germany DAX30) and -40% (Tokyo Nikkei). And, although international trade started to grow since the second quarter of 2009 (Figure 12, for merchandises), its volume in 2009 was -20% below than 2008's.

Table 1. GROSS EXTERNAL DEBT AS PROPORTION OF GDP 2003-2009 SELECTED EUROPEAN COUNTRIES (Gross External Debt/GDP)							
	2003	2004	2005	2006	2007	2008	2009
Austria	1.55	1.56	1.69	1.87	2.06	2.12	2.18
Belgium	2.49	2.41	2.65	2.67	2.98	3.14	2.73
France	1.15	1.24	1.36	1.57	1.73	1.80	1.87
Germany	1.28	1.26	1.32	1.37	1.43	1.49	1.53
Greece	0.93	1.00	1.08	1.16	1.29	1.45	1.68
Hungary	0.59	0.64	0.71	1.00	1.09	1.33	1.76
Ireland	4.01	4.91	5.86	7.05	7.96	9.31	10.28
Italy	0.88	0.87	0.95	1.06	1.13	1.15	1.20
Netherlands	2.44	2.49	2.62	2.90	3.16	3.11	3.12
Norway	1.05	1.06	0.91	1.08	1.28	1.26	1.45
Portugal	1.69	1.62	1.63	1.83	1.98	2.11	2.28
Spain	0.97	1.04	1.14	1.33	1.47	1.54	1.67
Sweden	1.25	1.31	1.47	1.52	1.52	1.52	2.12
Switzerland	2.35	2.39	2.35	2.60	3.08	2.74	2.48
United Kingdom	2.69	2.81	3.16	3.53	3.77	4.01	4.21

Sources: Joint BIS-IMF-OECD-WB External Debt Hub (2010); IMF (2010, April), *World Economic Outlook Database*.

Paradoxically, the relative reactivation of world GDP growth in the second half of 2009 and, specially, the positive projections for 2010 (4.6%, according to IMF) depend not so much on the positive effects on growth in the central countries of anticyclical policies (2.6% for all advanced economies), but on the relative strength shown by some economies of the semiperipheries during the world crisis: specially China and India, but also Brazil and Russia (projections for 2010 of 10.5%, 9.4%, 7.1% y 4.3%).²¹

Furthermore, the expansive anticyclical policies generated high fiscal deficits that reinforced the tendencies of growing external debt in several European countries (Table 1), especially Hungary, Ireland, Greece, Sweden and Norway and, to a lesser degree, Spain and Portugal. Facing the risk of default (as happened in Greece at the beginning of 2010), in many of these countries, as well as some others, restrictive fiscal policies are being imposed, which will have negative effects on the incipient recovery.

In fact, the strength of the recovery is uncertain. Recovery in the central economies is being mitigated by the persistence of instability factors in the world financial system. Besides the increase of the external debt of several European countries, the expansion of

²¹ Total GDP of these four countries was in 2009 24% of world GDP. IMF (2010, April) *World Economic Outlook*.

speculative markets (stock and derivatives markets), restarted in 2009. Furthermore, unemployment rates are still very high (Figure 8, for the US), with its consequent negative effects on consumption demand and on international trade and production worldwide.

4. PERSPECTIVES OF THE CURRENT CRISIS

The combined analysis of the immediate development of the current crisis, the 2000-1 crisis as its immediate antecedent and, basically, its contextualization in the neoliberal long wave of slow growth at a world scale lead to the following conclusions:

- 1) The current crisis cannot be conceived as a financial crisis with no relation to the structural tendencies of profitability and accumulation.
- 2) The current crisis is essentially a structural crisis of the neoliberal restructuring of the world economy; in particular, of its failure to fully reconstitute the structural (technical, social and institutional) conditions of valorization of the industrial capital. This failure is explained by:
 - a. The persistent low levels of the general rate of profit in relation to the postwar Fordist-Taylorist-Keynesian regime of accumulation. The mild recovery of the productivity of capital and the general profit rate generated by the technical change associated with the information and communication technologies was truncated with the bursting of the dot.com bubble and the 2000-1 crisis.
 - b. The weakness of the capitalist process of accumulation, which is explained not only by the low level of profitability but also by the barriers to a complete reactivation of the productive investment imposed by the neoliberal financial and anti-labor bias, both in a quantitative sense (meager growth of productive investment) and a qualitative sense (absence of a general technological renovation and of a fully operating relative surplus value mechanism).

The inability to generate a sustained economic growth based on the productive accumulation of capital, due to the two previous points, has created the context for an economic policy that promotes and permits the recurrent formation of speculative bubbles with the consequent overvaluation of capital and financial assets, whose bursting has

spurred the macroeconomic instability characteristic of the financial forms of valorization, as well as of the long wave of slow growth.

The preceding characterization is essentially similar to other Marxist interpretations of the current crisis. In general, Marxist interpretations of the current crisis depart from a theoretical framework that conceives the crisis as a recurrent phenomenon inherent to the capitalist economies. This position confronts with the orthodox interpretations of the crisis as related to errors in the configuration and application of the economic policy; the excessive deregulation of financial markets being the main cause of the current crisis. Nonetheless, the characterization exposed here differs in some respects from other interpretations inspired in the Marxist paradigm. First, it rules out a classical overaccumulation crisis associated to the tendential fall in the rate of profit, as Kliman (2009) and Carchedi (2009) claim. On the contrary, the current crisis is contextualized in a period of slight recovery of the general rate of profit as a result of the neoliberal restructuring processes leaded by United States and the big corporations. However, the crisis cannot be characterized without a close link to the conditions of valorization of the productive capital, as the proponents of the most radical versions of the financiarization do, like Duménil and Lévy (2009), Lapavistas (2009) and Moseley (2009). These authors consider that the general rate of profit in United States and Europe has recovered from the postwar fall and, consequently, the lack of the dynamic process of accumulation and the great macroeconomic instability owes essentially to the hegemony of finance. In contrast, the paper points out the failure of neoliberalism to reconstitute the structural conditions of the valorization of capital since the 1970s profitability crisis. Finally, the interpretation defended here does not perceive the problems of realization and underconsumption, related mainly to the stagnation of real wages, as causes of the current crisis, as Brenner (2009), and Foster and Magdoff (2009) do.

The perspectives for a crisis exit are very complex; in addition to the recent weakness of the recovery in the main powers of the world economy, there is a lack of adequate structural conditions for an accelerated process of capital accumulation. In this regard, the perspectives of a positive evolution of the world economy depend on: i) the capacity for capital devalorization of the current crisis, necessary condition for the total recovery of the general profit rate; ii) the abolition of the financial speculative hegemony,

quantitative necessary condition for the reactivation of the accumulation process in the previous context of a rising profitability, and iii) the long-term recuperation of the working conditions and purchasing power of wage-laborers, qualitative necessary condition for an accumulation process oriented to a general renovation of the technological basis of the production processes. In conclusion, it depends on the complete eradication of the neoliberal regime of accumulation, for which the class struggle – fundamentally, the struggle between capital and labor– plays a prominent role.

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