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The Aftermath

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Abstract

Crisis prevention is never an easy task and past experiences tell us that great turbulences may come in many different forms. As for the present global crisis, its inception was a mixture of errors of economic policy, of greed on the part many creditors and borrowers across the world and of inadequate financial supervision from many agencies.

This paper tries to pinpoint the roots of the crisis but it goes beyond that, for there is always an aftermath of the shock that has profound effects in the world economic fabric, effects which have to be pondered over to understand the range of the meltdown and the huge problems that lie ahead.

Keywords:
Meltdown, Sovereign debt, Financial regulation, Financial capitalism.

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1. Introduction

Most people would agree on the five drivers which led to the present global financial crisis: easy money, the workings of the shadow banking system, the risk transfer delusion, the failures of regulators and rating agencies and, finally, the unleash of uncertainty.

From 2002 to 2006, the Federal Reserve kept its federal funds rates very low and the main central banks, specially the European Central Bank, followed suit. But low interest rates have two effects: they may stimulate economic activity but, if kept for a long time, they may also create bubbles. And bubbles they created in the stock exchanges and in the residential sectors. In fact, prolonged periods of very low interest rates increase the incentives to bear risk. (BIS, 2010)

The "shadow banking system" is a term coined by McCulley (2007) to designate all those intermediaries that are not backstopped by the Federal Reserve or the FDI deposit insurance; namely investment banks, hedge funds, structured investment vehicles or conduits, in the USA financial realm. Their common features: they are highly leveraged and they raise funds by borrowing in the interbank markets or through issuing commercial paper. To a certain extent, their performance prior to the great turbulence reminds of a time bomb in search of a date, a crippled flyer in a flying trapeze.

Risk is the nuts and bolts of finance. If A lends money to B, he expects to be repaid in time and, to that end, he will previously watch the financial profile of the borrower and maybe ask for collateral. Even so, there is always the possibility that the lender does not get his money back and that he loses it completely; for risk is the counterpart of interest. Now, imagine that B sells his contract to C and C to D and D to F and so on.There is no risk for the sellers because it has been transferred to the buyers. And imagine, again, that the ultimate borrower is living in a country far away from the one where the credit originated. And imagine, once more, that there are thousands of contracts, spread all around the world, kept in the portfolios of individuals, banks, corporations, institutional investors and even charities.

Are the sellers on the sunny side of the road once they have transferred the risk?. Yes and no. Yes if only several of those credits default, for the ultimate owners will loose their money and no previous seller will be affected; no if thousands of those credits go bust because delinquency will ricochet all around the world's financial markets and everyone, be it seller or buyer, will find itself in a tight spot through the ensuing liquidity and credit crunch. And that is just what happened when the subprime scam was unveiled, uncertainty permeated the financial world and the name of the game turned to be "no credit, no risk".

Financial regulators are supposed to regulate, i.e. to create a set of prudential rules that make it difficult for financial intermediaries to go astray, to find themselves unable to perform their duties; in short, regulators should put up safety nets to ensure that financial shocks have a limited impact. But how about the non regulated intermediaries, the so called “shadow banking system”? No safety net for them or for those that lend them funds without paying any attention to excess leverage or risk outside the purview of regulators.

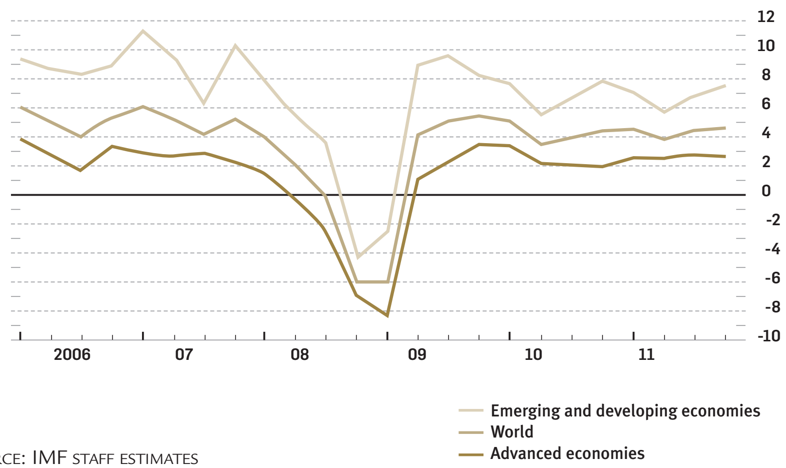
Rating agencies exist to guide investors to invest safely. If they rate an asset with AAA+ mark or similar, they are sending a message to the markets: this is a solid asset and the possibility of delinquency is non existent or very low. And most of the time their standards ring true. Not so in the case of subprimes and some other exotic financial packages that obtained the utmost qualifications from several rating agencies, that were sold to investors all around the world and turned into de detonator of the great meltdown.

Following the “mark to market rule” the value of non performing assets amounted to zero, since there were no buyer for them. And so the balance sheet of many individuals and institutions, trapped in the firestorm, suffered from high capital losses. The first casualty of the mapping up of benefits were the enormous interbank markets, the fulcrums of the banking activity: banks all around the world borrow huge amounts of money from other banks, on a very short time basis, to cater for the needs of their clients or to fund themselves for whatever reason. These markets rely on mutual trust as, normally, no collateral is requested. But if trust fades away, if confidence falters, the interbank markets cease to perform since suspicion replaces trust: Banks CEOS stop lending other banks for fear of the rest of the banks having toxic assets in their portfolios. And hence the interbank markets came to a halt, the credit crunch followed, a crunch compounded by the explosion of uncertainty. Who is to be trusted in a sea of suspicion? Who was to be trusted when Lehman Brothers went bankrupt, in September 2008, making it clear that no one was too big to fail? Almost no one. In the American financial crisis there were many sinners and many sins, as Kaufman (2010) has pointed out.

But it will be unfair to put the blame solely on the American financial crack. Many other economies in the western world had been following the same profligate paths and had to face similar problems. The Spanish economy, for instance, went through a golden period, in 2002-2007, boosted by easy money, the construction boom and the consumption spree. The European Central Bank applied a policy of very low rates to its tenders from 2002 to 2006; the construction boom followed, spurred by skyrocketing demand and boomed by low rates of interest – variable rates in most cases – and long maturities offered by banks and saving banks; cheap consumer credit made it possible for many people to buy new cars, to acquire gadgets galore and to go to distant places on vacation. Till the bubbles deflated, in 2008, and the economy went into recession in 2009. In fact, Spain nurtured its own crisis, though the global financial meltdown made things much worse.

Trough fiscal stimuli, slashed interest rates by Central banks and huge amounts of public capital – trough public largesse, in short – recession is fading away in most OECD countries, as Figure I shows.

Figure 1. **Global GDP Growth (% QoQ, annualized)**



SOURCE: IMF STAFF ESTIMATES

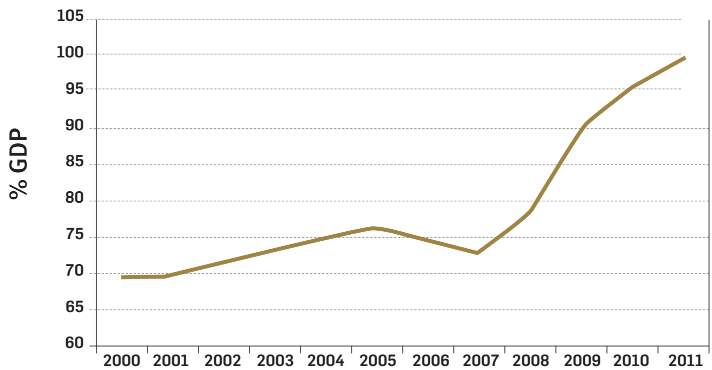
Apart from the fact that IMF estimates tend to be sanguine, to avoid any trace of negative self prophecy, the recovery will be fragile and short lived unless the big remaining problems the rich world is facing can be effectively tackled: sovereign debt, weak financial systems and lack of confidence in the present capitalist model. For growth and employment depend heavily on finding a solution to those drags.

Section 2 of this paper will, thus, delve into the realm of debt; section 3 will cover the stress of the Western financial systems; section 4 will tour the intricacies, weaknesses and dynamics of XXI century capitalism; and section 5 is just a warning.

2. The debt mountain

The world is awash in debt, as Figure 2 shows, for Governments in the OECD area, have indulged in debt financing to save the day, most probably under the Keynesian assumption that deficits will push forward the wheels of their economies and, most probably too, for the crushing effect of automatic stabilizers. If Governments think that fiscal stimuli is the key to redressing their economies and, at the same time, they see their expenses go up and their tax and non tax receipts go down, no wonder they incur in debt financing. Note, in Figure 2, that, on the whole, debt ran at 75% of nominal GDP in 2007 and will top 100% in 2011.

Figure 2. **General Government Gross Financial Liabilities in OECD**



SOURCE: OECD ECONOMIC OUTLOOK 87 DATABASE

To understand the realm of debt financing, let's recall the simple macroeconomics of debt effects (Elmendorf and Mankiw, 1999).

In the short run, debt financing may increase aggregate demand and output: Governments rely on fiscal stimuli to prop up the economy but to do so, to increase their expenses over and above their tax receipts, they have to issue bonds and sell them in their country or abroad. If fiscal stimuli go on for a long period and many countries follow the same path, two big problems will loom sooner than later: 1) How to find the buyers for the debt; and 2) the cost of debt. Right now there is a "debt jam" across the world financial markets since the large rich countries are issuing new debt to finance their new expenses or to pay for the standing debt. Some Governments, mainly Asian, and many institutional investors, buy Sovereign debt issues but reluctancy to acquire new debt is in the offing, for Sovereign debt has ceased to be considered the best bet. And, consequently, risk premiums go up and raise the cost of new issues.

Crowding private investment pops up as another effect of debt issuing: Lendable funds will be scarce for private investors. In periods of economic doldrums, the crowding our effect will not be felt but it will certainly appear as soon as the economic conditions improve.

In the medium term, and unless the rate of growth increases, the snowball effect of debt may become the main issue. To keep the debt-to-GDP ratio constant, the following relationship must hold (Smidth and Hansen, 2010):

$$\frac{PD_t}{D_{t-1}} = Y_t - i_t \qquad (1)$$

where *PD* is the primary deficit, *D* is the total amount of debt, Y stands for nominal GDP and i represents the average nominal interest paid on government debt. Therefore a country with nominal growth lower than the interest paid on government debt will see its primary deficit increase and its total debt balloon. Governments tend to ignore that debt solvency is a forward looking concept and, by the same token, they pay scant attention to the dynamics of debt. And yet the snowball effects have to be tackled rather rapidly by turning primary deficits into primary surplus as soon as possible.

In the long run, and unless governments inflate debt, the common way to solving the debt problem tends to be increasing taxes. But tax increases reduces private savings and therefore domestic investment. In the end, increasing taxes will probably shrink the country capital stock which, in turn, will imply lower output and income. Not necessarily, since foreign investment may fill the gap, but, in most cases, the tax increase solution will hinder the path to economic recovery and, generally speaking, as pointed out by Buchanan (1999, Chapter 4) Government debt will shift the burden to future generations. Any individual may be interested in purchasing government bonds because he understands that, in so doing, his personal portfolio will be reinforced; but, from the point of view of the economy as a whole, future generations will have to put up with the cost of debt through additional taxation and, therefore, their living standards will be eroded.

But there is more to it. To Reinhart and Rogoff (2010), when governments' debt to GDP ratio surpasses 90%, growth declines by at least one percentage point a year. Why? Because heftier taxes, resulting from the increase in public debt, will bite into consumer spending and corporate investment and put a heavy lid on growth prospects.

So far, we have summarized the macroeconomic effects of debt in any one country but the present scenario is quite different: it is not about debt in one country since many countries suffer from the same disease; in fact the developed world is facing similar problems. Thus, the debt problem is compounded by simultaneity. And simultaneity gives birth to three additional problems: 1) the reassessment of sovereign credit risk; 2) the impact of fiscal consolidation across the OECD area; 3) the expected behaviour of political leaders forced to adopt harsh decisions.

The Dubai standstill, at the end of 2009, made it clear to many investors that Sovereign bonds were not as safe as they used to be. But the real problems have sprung in the EMU markets, concerning the solvency of some of its members and the possibility of default in their Sovereign debt. It is to be remembered that the common currency has resulted in the disappearance of the intra-area exchange risk but, at the same time, it has linked the financial markets of the group to such extent that default in one country could initiate a domino effect across the area. So the troubles of Greece, in May 2010, sent ripples of panic along the world financial markets and prompted the setting up of the European Financial Stability Facility and the program of the European Central Bank to buy securities (IMF, 2010). Pressures on the Euro area bond markets have eased but, unless some radical change occurs, the reassessment of Sovereign risks will hover over the world for years to come.

To veer away from the debt trap, countries have to enter into fiscal consolidation either by tax increases or by cutting on public expenses since inflating the debt is to be discarded, given its extremely distorting effects. In the rich world there is not much room for tax increases; therefore expenses cuts will have to be effected across the OECD to balance the budget. No small beer in an integrated world where fiscal stimuli have been the key to avoiding a calamitous depression. So Governments have to enact credible plans for medium term fiscal cuts on the basis of public expenses reductions. But there are trade-offs to be considered. First of all, cutting public expenses could hinder the rich world recovery unless private consumption and investment show a rapid surge. Second, the deficits of many nations will have to be reduced simultaneously and make adjustments more painful since deficit in one country props up the external demand of other countries.

Reducing fiscal deficits means implementing austerity plans and austerity is not an easy pill to be swallowed by western societies. Social unrest may follow and turn into social upheaval as declining expectations replace rising expectations. So, Governments will have to face the difficult choice of upsetting the markets or upsetting the voters; and casting away votes and political power really upsets politicians. It may, thus, happen that Governments set a balancing course, which means austerity, and as soon as the first improvements loom up, indulge once more in the expansionary policies that so far have helped to avert the worst effects of recession but that should be set aside by any country eager to sail into safe waters. Kind of stop and go political decisions absolutely unfit for almost any country in the Western world, and leading nowhere.

3. The global financial system

Financial experts would probably agree on the pre-crisis financial errors as pointed out by Walter (2010): "too much leverage in the banking and financial system and not enough high quality capital to absorb losses; excessive credit growth based on weak underwriting standards and underpricing of liquidity and credit risk; insufficient liquidity buffers and overly aggressive maturity transformation; inadequate risk governance and poor incentives to manage risks towards prudent long term outcomes; inadequate cushions in banks to mitigate the inherent pro ciclicality of financial markets and its participants; too much systemic risks interconnectedness among financial players".

Right now the proposals to rein in the financial markets flow in from Governments and agencies and first and foremost is the Obama Administration Regulatory Reform (2010). It's an all-encompassing proposal aimed at regulating markets and participants in order to avoid future shocks. Its main highlights:

1. Create a Financial Services Oversight Council to facilitate information sharing and coordination;
2. Implement consolidates supervision and regulation of large interconnected financial firms;
3. Strengthen capital and prudential standards for all banks and bank holding companies (BHC);
4. Close loopholes in bank regulation through the creation of a National Bank Supervisor to supervise and regulate all federally chartered depository institutions and all federal branches and agencies of foreign banks;
5. Eliminate the Security and Exchange Commission (SEC) programs for consolidate supervision and put them under the Federal Reserve;
6. Require hedge funds, and other private pools of capital to register with the SEC;
7. Strengthen the regulatory framework around the money market mutual funds;
8. Enhance oversight of the insurance sector;
9. Establish comprehensive regulation of financial markets, including over the counter derivatives and credit default swaps;
10. Protect consumers and investors from financial abuse;
11. Provide the Government with the tools it needs to manage financial crises;
12. Raise international regulatory standards and improve international cooperation.

Financial intermediation, as Goodhart recalls, is inherently pro ciclycal (Goodhart, 2009). During upturns, profitability and assets prices rise, defaults and non performing loans decline, volatility goes down, banks and financial intermediaries increase leverage to benefit from new opportunities and moral hazard goes into oblivion. When downturn bursts in, the reverse happens. So counter- cyclical regulatory requirements are supposed to come to the fore to avoid costly miscalculations, and part of the American and Basle proposals go that way. Will they meet with success? Perhaps not.

The Basel Committee on the Global Financial System is working on a reform program intended to regulate world financing and based on micro prudential and macro prudential elements. Among the micro prudential elements, the Committee stresses the need to ensure that intermediaries can count on high quality capital to absorb losses and that, to this end, they set aside countercyclical buffers to absorb unexpected shocks; and, with this in mind, it insists in the need that profits, once returned to the pre-crisis levels, be used to build those buffers and not to feed high bonuses, dividends and leverage.

To test the resilience of European banks, the Committee of European Banking Supervision has launched an EU-wide stress test exercise that includes a sample of 91 European banks (saving banks are not excluded) to asses the ability of banks to absorb credit and market risks (CEBS, 2010).The sample includes 91 European banks, representing 65% of the European market in terms of total assets. So far the test has been fairly positive, as only 7 banks have failed to pass it under adverse scenarios that also includes sovereign shocks.

To follow on, the Basel Committee on Banking Supervision has just approved the Basel III (2010) capital requirements. In short, it stresses the need to set new standards in relation to risk-weighted assets. In compliance with them, banks, in the member countries, should increase the amount of common equity, the highest form of loss absorbing capital, and gradually reinforce the minimum ratio between capital instruments and risk-weighted assets. This regulatory adjustment will be phased so that banks can meet the new requirements without impairing the economic recovery. In 2011, the minimum total capital will stay at 8%, though equity capital should increase, and, by January 2019, total capital should reach 10.5%. Moreover, the Committee puts forward the need to build a countercyclical buffer within a range of 0%-2.5% of loss absorbing capital to protect the banking sector from unexpected shocks.

And there are many other regulations in the offing concerning the global financial system. Among them new regulations of derivative activities in the sense that over-the-counter exposures will be subject to higher capital requirements, especially when they are not cleared through central counterparties. It is part of the macro prudential elements announced by the Basel Committee. To top it all up, the idea of a financial transaction tax is being discussed in the USA, in the European Union and in the International Monetary

Fund and many Government officials, here and there, are keen on the issue, maybe because they think that taxing the banks will be a good start to chastise them or, in fact, because in, a sea of deficits, banking on the tax will increase the public receipts.

No decision has so far been taken, given the complexity of financial transactions and the difficulty to assess the tax effects. But, in any case, taxing the financial transactions, be it a turnover tax or a profit tax or any other kind of tax – all of them reminders of the Tobin proposal of 1978, intended to curb speculation in the currency markets – the end result will be more regulation, more red tape and additional costs to credit borrowers.

At first glance, the intended reform seems to be an assertive, sweeping reform aimed at revamping the rules that govern financial markets, in an effort to clamp down on lending practices, to reduce the prociclicality of the world financial system and to expand consumer protection. On second thoughts, the reforms are open to several questions. First of all, the problem of ultra-regulation. Almost every inch of the global financial system, especially the rich world financial system, will be highly regulated; but if regulation permeates the ups and downs of financial markets, the outcome will most probably be a terrific loss of efficiency and remarkable cost increases due to an excess of red tape at best; or, at worst, a continuous motorized legislation towering over institutions and markets (Hirst, 2000).

And there are two conundrums to be reckoned with: First, banking is a highly innovative activity and, faced with crushing constraints, banks may find ways to avoid them without breaking them. Past experience shows that regulators tend to lag behind innovations. If the cost of bank capital rises, the spread of deposit and loan rates will also rise and investment and growth will be impaired. And more so if requirements in relation to risk-weighted assets induce bankers to concentrate on public assets and reduce their private assets exposure.

Second: nowadays, finance is a world wide activity: markets are integrated, most banks are international banks, in as much as their lending and funding are cross-border, and derivatives are criss-crossing the whole financial world. Thus, if regulations are not world wide, many financial transactions may look for friendly shores and leave the regulated parts of the markets.

4. Will capitalism survive?

When reflecting upon the present turmoil, many people, all around the world, see it as the offspring of the dominant form of capitalism: financial capitalism. What they look at is the messy landscape of investment bankers, of high flying executives extremely well paid and compensated, if fired, and of a long list of banks, financial companies and corporations being bailed out with taxpayers money; and, at the same time, they also see that unemployment is increasing so that, even in the rich world, poverty is creeping forward.

For these people, there is a clear culprit: financial capitalism. And there is only a way out of the present and future crisis: replace capitalism by some sort of socialism, be it "soft-governments" supervising most economic transactions or "hard-governments" deciding on every economic transaction.

In 1986, Minsky, an American economics professor, who taught mainly at Washington University in St. Louis, published a book which explained, at length, his ideas about the capitalist economy or, to be more precise, about financial capitalism (Minsky, 1986, Chapter 13).To Minsky, "market capitalism is both intrinsically unstable and can lead to distasteful distributions of wealth and power" (Minsky, 1986).

To fully understand his reasoning, it is useful to read his 1992 paper on "The Financial Stability Hypothesis". For him, financial capitalism is not an equilibrium seeking system since its performance is tainted by the level of profits. And profit-seeking treads different paths: hedge finance, speculative finance and Ponzi finance. If firms follow hedge financing, prospective income flows will cover interest and principal of their debt; if they follow speculative finance, income flows will cover only debt instruments; if they follow Ponzi finance, their receipts will cover neither interest nor principal, and debt will skyrocket. Over periods of prolonged prosperity, firms will try to rely on speculative and Ponzi financing till the whole system finds itself in deep trouble. Thus, financial capitalism is an intrinsically unstable system prone to generate its own turbulences and its own business cycles.

Needless to add that his agenda for reform, to attain a less flawed capitalism, relies heavily on government intervention (Minsky, 1986).

Looking at the 2008 shock and its aftermath, the Minsky explanation seem to be rather catching. In fact, Minsky (1986) is related to Keynes in at least two aspects: the business cycle and the volatility of investment. And, no doubt, Keynesian economics is fashionable again, in the sense that many scholars, pundits and politicians sense that the meltdown can only be overcome by public intervention.

So much so that Davidson, the custodian of the Keynesian holy grail, has insisted in the need to set up an International Monetary Clearing Union (IMCU) with three objectives:

1. To prevent a lack of global effective market demand due to liquidity problems and to ensure global full employment.

2. To provide an automatic mechanism to correct international trade imbalances and place the burden of correcting on the nation running persistent export surpluses.

3. To provide each nation with the ability to monitor and control financial movements out of the nation. (Davidson, 2009). Even Keynes, noted by his alacrity to change his mind, would wholly agree on this proposal which replicates his own plan of 1941!

In Keynes country, there is no dearth of Keynesian ideas. To Skidelsky, the well known Keynes biographer, the UK financial system "has become master, not servant, of production" (Skidelsky, 2009) and is in need of more regulation.For instance, he advocates the Glass-Steagall philosophy of separating commercial banking from investment banking, based on the fact that commercial banking runs on deposits and investment banking on investor's money. Therefore, the former should not be allowed to indulge in high-risk lending whereas the latter could gamble with their investor's funds, though they should be excluded from any public bailouts .With an additional proviso, in line with the separation between the two kinds of banks: that multinational banking should be subject to some kinds of restrictions.

Going back to the Keynes assertion that the propensity to save is stronger that the propensity to invest, Skidelsky follows the Keynesian suggestion that monetary policy should strive to maintain low interest rates while fiscal policy should be directed to achieve a continuous high level of public or semipublic investment. Yet this policy needs an international dimension, the more so in an integrated world, and a new Bretton Woods is needed so that member countries accept that reserves could be set aside for insurance needs but not for piling up international reserves (Skidelsky, 2009).

Another well known Keynesian, Krugman, stated, a decade ago, that "anything that has to be rescued during a financial crisis, because it plays an essential role in the financial mechanism, should be regulated when there isn't a crisis, so that it doesn't take excessive risks" (Krugman, 1999). And he concludes that the ideas of Keynes are now more relevant than ever to redress the sad state of many economies.

After a detailed description of the financial crisis, Roubini, considered to be the harbinger of the present meltdown, and Mihm, reject the wonders of unregulated financial markets and the fruits of financial innovation (Roubini and Mihm, 2010). They call for a revamping of the financial system which would regulate every piece of it, to close loopholes, and since financial crisis do not respect national boundaries, they insist in regulating across the borders. Both economists are not self proclaimed Keynesians but their recipes sound very much Keynesian.

Actually, the gist of the Keynesian approach is to be linked to his “animal spirits” idea: rational motivations explain many economic decisions but many other economic activities are governed no by calculus but by an spontaneous urge to act (Keynes, 1936). So, while showing tremendous creative capabilities, capitalism cannot be left to its own devices for it has a tendency to pursue excess and beget crises. Therefore, the role of governments is to set the stage not to rein in its creativity but to countervail excesses (Akerlof and Shiller, 2009).

And if we leave theoretical economists and turn to high office politicians, we will find the same appetite for regulation. President Obama is very keen on regulation, President Sarkozy plays the same fiddle and many other European leaders are convinced that government intervention and regulation are the only solutions to escape the present quagmire. Political leaders are supposed to respond to the angst of their constituencies and the mood of western societies is not in favour of free markets for the time being. Thus, in their view, instability and unpredictability ought to be mopped up by the judicious steerage of governments.

In a world of technological integrated financial markets and freedom of capital movements, financial markets tend to be both unstable and hardly predictable, in other words they tend to be volatile, as can be seen in Figure 3 concerning the S&P Index. The more so since institutional investors – pension funds, mutual funds, hedge funds, insurance companies and the like -, the managers of large pools of money, are the major players in these markets.

Figure 3. **Stocks markets historical and implied volatility**

S&P 500

Note: Historical volatility is calculated by the standard deviation of equity price changes.
Implied volatility values the prices of call options on index futures.

Source : Bloomberg

Any other index will go the same way, will show that we are living in an unstable economic universe which spells doubt and fears and makes people to look for government protection and regulations.

But, will public intervention across the board and across borders slash instability and give way to another long stint of global economic prosperity? We can only answer the question by bringing to the fore some other questions?

Question number one:
Which will be the limit of public intervention? For intervention means protection and government protection has a parthenogenetic bias: protection in one market normally leads to protecting some other markets, financial and non financial, till the whole of the economy is suffering from the same disease: lack of dynamism.

Question number two:
Financial regulations will be accepted by all countries in the world? If not, the non accepting countries will probably attract large slices of financial activities and transform the financial world in a land of winners take all.

Question number three:
Will international trade remain unaffected by regulations? So far, international trade in goods and services has been one of the great engines of prosperity but nobody can assure that the spill-over of public intervention do not reach international trade. Past experiences go the other way round.

And here comes the grand fourth question:
Will capitalism survive? In 1942, Schumpeter took a negative stance on the matter (Schumpeter, 1942) but nowadays the right answer could probably be: yes, it will survive but in a different form.

It will survive because there is no other suitable alternative, unless serious minded people come to accept that the present non market economies will, in the end, pave the way to prosperity; it will survive because capitalism is the only system that protects individual freedom: no democratic structure has been able to survive when private property is banned and markets cease to exist; finally, it will survive because it is a protean system that can transform itself, as history reveals.

And yet, there is a nondescript risk:
That, for a long time, Western capitalism will become a monitored system, permeated by regulations, and suffering from scant economic muscle. *Not a consummation devoutly to be wished.*

5. Final remark

The shape of the global economy had been changing since the eighties and, by the middle of the present decade, it showed the rise of the Asian world and several other emergent countries, the slight decline of the USA powerhouse and the not so slight decline of the European Union. The global financial crisis of 2007 and the ensued meltdown have brought to the fore a new set of problems concerning the ways and means of overcoming the shock and restoring the engines of growth; not an easy task for the rich world, for the Western economies, especially for those that have been spending beyond their means for a long time. To cut down their public and private debt without endangering their economic recovery and keeping social unrest at bay will take a lot of political capabilities, on the part of governments, and new measures of international cooperation. Not the cooperation of words but the cooperation of facts. Otherwise the coming years will not be a time of gradual recovery but a period of economic and political upheaval.

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