THE INTERNATIONAL FINANCIAL CRISIS – „MAYBE, WE CAN'T?"

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There are many reasons for the current global financial crisis, one of them being the monetary policy of the US Central Bank, which was mismanaged for a long time: when the Asian markets and banks collapsed in 1997, the US government feared a decline in global demand and sought to cushion it by giving a new impetus to the country's economy. The Fed lowered the interest rates but kept them low for too long. The foundations for the stock market bubble were laid.

To meet a potential recession, interest rates were lowered once again. Because they were kept down for too long again this time, however, the housing bubble developed. Swiftly growing real-estate assets and the monetary policy of the Fed triggered a rise in demand, and US imports increased drastically. US bonds accumulated especially in Asia's central banks. Such a rapid growth in the global economy could not be maintained permanently, especially as the production of commodities could not keep up with the enormous increase in demand. The right thing to do would have been to raise interest rates. Instead, investment banks flooded the market with liquidity, and risk mark-ups vanished almost entirely. Loans were extended where they should never have been granted.

Owning a house on one's own piece of land has always been one of the core elements of the American dream. US policy did and is still doing much to realize this dream for as many people as possible, especially those belonging to marginal groups. Their declared objective being to promote homeownership, the two mortgage banks Fanny Mae and Freddy Mac, whose books list about half of all the mortgages issued in the US, functioned as the main players of governmental assistance, both providing liquidity on the primary mortgage market. To be sure, there were warnings, but they were ignored. Corruption also played a part, as did the irresponsibility of the key actors on the market for mortgage loans, the borrowers and the banks. In many cases, the latter were even prepared to update the value of a property after just a few years and to pay out new mortgages. Thus, Americans felt richer and tended to consume more.

As long as real-estate prices remained stable and interest rates low, all went well. As soon as the interest rates increased, however, the burden on many owners grew. When property prices began to fall on top of it all, a vast number of home-owners realized that the value of their properties had dropped overnight below that of the mortgage with which they were encumbered. And as some banks had accepted the property itself as sole security for a mortgage during the phase of the real-estate boom, affected owners simply moved out and handed over their houses to the bank.

Following restructuring, many mortgages found their way to the derivates market in the form of black boxes whose content was as unknown as their value. Again there were warnings, especially as the market for credit default swaps had grown nine fold between 2002 and 2005. When the credit crunch set in, dragging institutes such as Bear Streams and Hypo Real Estate down with it, the system of short-term funding of long-term obligations collapsed.

Since the outbreak of the crisis, the US government has presented more than one programme designed to contain the expected wave of insolvencies and to fight recession. The first bailout programme was not very popular, although its estimated 700 billion US dollars did not even account for one half of the total of 1,610 billion US dollars the country spent on fighting the financial crisis in 2008 alone. In mid-February 2009, an economic stimulus package worth 789.5 billion US dollars was adopted as the next step, this time under the government of Mr Obama. One third of the amount are tax reductions, two thirds constitute expenditures in the fields of infrastructure, health insurance, education and the like. Before this package was tied, there were intense discussions not only between Congress and the White House but also between the two houses of Congress itself.

And there is already talk about the need for yet another stimulus: the US Secretary of the Treasury, Mr Geithner, has mooted another financial bailout plan in the form of a bad bank which is to take over toxic assets so as to enable banks to grant new loans. President Obama has suggested an initiative to help homeowners in need. Furthermore, the automobile industry already informed the public that it could not get by on the 15 billion US dollars granted at the end of 2008and would need more. And finally, news of the insurance company AIG having lost 61.7 billion US dollars caused stockmarkets all over the world to collapse in early March.

The money spent on all programmes launched by the US government and the Fed since the beginning of 2008 amounts to a total of 7,800 billion US dollars. The 2009/2010 draft budget presented by Barack Obama late in February ran to 3,600 billion US dollars at a deficit of 1,200 billion. While the president promised to cut the deficit in half by 2010, he did not give away how he intended to do it.

One of the main causes of the financial market crisis was the inflationary increase in property values which slumped dramatically later on. Unquestioned liquidity and the resultant low interest rates fuelled growth expectations and led to arise in demand. Production expanded markedly throughout the world. For a certain time, the capital effect of this boom was able to underpin the booming demand. When the boom collapsed, however, it became apparent quickly that the supply greatly exceeded the demand. Although difficult to achieve, the objective of the government programmes is to straighten out this imbalance.

The question is indeed, what kind of effect the bailout and stimulus programmes may have. On the one hand, those financial institutions are to be stabilized which, their assets having lost value, systemically threaten the financial sector as such. On the other, the secondary effects of the loss of assets in the fields of production and employment are to be alleviated if not remedied.

By now, a discussion has flared up inside the USA about whether tax benefits are more effective than new expenditures. The advantage of the former is that their effect sets in more quickly than that of dedicated government spending. Thus, the recently adopted stimulus package will run for ten years. And a certain start-up phase will be required before projects can be commissioned. In the past, such delays often caused the full effect of the stimulus to set in only after the revival of the economy. Increasing tax revenues to reduce the budget deficit, on the other hand, would probably be counterproductive.

It is indeed by no means certain that the stimulus and bail-out programmes will have a positive effect. Even high-ranking US politicians privately admit that they basically do not have a convincing concept to fight the crisis. What keeps them going is the hope that one or another of the programmes initiated might achieve a breakthrough, and that the sheer dimension of the funds provided might not remain completely ineffective.

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