

THE POST-CRISIS WORLD: THE WORLD ECONOMY IN THE AFTERMATH OF THE GREAT FINANCIAL DOWNTURN

Krzysztof Czubocho¹

Abstract

The great financial crisis of 2008/2009 precipitated substantial changes in the world economy, national economies and the world balance of power. Economists coined the term “the new normal” to describe the post crisis world. The new world order will be characterized by increased state intervention, a recession generation, the disconnect between the fate of big companies and labor, the end of upward social mobility, increased state capitalism, changes to the process of globalization and the growing influence of international capital on national economies. Advanced economies will undergo a period of economic stagnation whereas emerging economies will grow at a much faster pace. As a result, the world balance of power will change. Western countries will lose their influence as their share of the world economy will diminish. A new multi-polar world will be created in which Western economic rules and values will no longer be emulated. Free market capitalism, human rights and democracy will be weakened.

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Introduction

Between 2003 and 2008 there was a lot of talk about supercapitalism and supercharged capitalism. The driving force behind seemingly unhindered economic growth was to be the U.S. economy based on the free market, entrepreneurship, democracy and human rights. Self-correcting and always efficient markets were to lead to ever growing prosperity for people belonging to every social class, including the poor (the trickle-down effect). According to experts, the European Union and emerging markets were to emulate the American example if they wanted to catch up. The United States was able to act as the sole superpower on the basis of its economic power. Free market economists rose to prominence and decided the policy of international financial institutions influencing economic policies of emerging markets². The great financial downturn of 2008/2009 called into question the basic assumptions concerning the free market economy and U.S. economic dominance. As a result, it turned out that many pundits were terribly mistaken with reference to the future of the global economy and the distribution of economic and political power in the world. The aim of the paper is to present the latest tendencies in national economies as well as the world economy and to forecast the future shifts in the global balance of power on the basis of the new economic tendencies.

¹ Dr Krzysztof Czubocho, Państwowa Wyższa Szkoła Zawodowa w Jarosławiu, ul. Czarnieckiego 16, 37-500 Jarosław, kczubochoa@onet.eu.

² See, for instance, Friedman, 2007. The excesses of free market capitalism were criticized by some renowned economists before 2008, but such opinions caught little attention. One of the fiercest critics of unbridled capitalism was Noble Prize-winning economist J.E. Stiglitz, (2007, pp. XIII-XIV).

The Causes of the Great Financial Downturn

The great financial crisis was conditioned by several factors. The first factor was the subprime-mortgage market collapse. Rising housing prices were beneficial to consumers as they enabled more and more borrowing which, in turn, led to increased spending power. Lending standards were relaxed as the value of houses was rising and lenders could recover their money even in case of defaults. People took excessive risk as they believed that the economy would be stable in the future. Between 1983 and 2007 the United States enjoyed the longest period of stable economic growth in its history. From 1980 to 2000 the value of household stocks and mutual funds increased approx. tenfold to \$11 trillion. The median price for homes rose from \$62,000 to \$144,000 and in 2006 it reached \$222,000. The enormous creation of wealth resulted in a falling savings rate. The rate dropped from 10 percent of disposable income in 1980 to 2 percent in 2000 (Samuelson, 2010, pp. 36-37). The increased prosperity and economic stability seemed to become normal. The efficient markets theory seemed to be right.

In 2007 the housing market collapsed. The banks which were highly exposed to bad mortgages became insolvent. The first casualty was Bear Sterns in March 2008 and the next was Lehman Brothers. The U.S. government decided not to bail out Lehman Brothers which triggered the financial meltdown. Some politicians blame banks for causing the great financial downturn. Their practices were reportedly dodgy, unethical or even illegal. The system of compensation encourages risk-taking at the expense of a long-term strategy in order to gain short-term profits. Banks reportedly created arcane financial instruments (e.g. collateral debt obligation) to increase their profits. The problem is that banks might have managed these instruments in an illegal way inflicting losses on some of the companies they dealt with. It was standard business practice at the time. As a result, not only small investors were affected and eventually these practices triggered the crisis. There are many court cases in which the institutions which lost money try to prove that the practices of banks were illegal. The U.S. Securities and Exchange Commission and the Justice Department are investigating the matter (Zakaria, 2010, pp. 22-23).

Many analysts claim that the subprime-market collapse can be attributed to former Federal Reserve chairman Alan Greenspan's reckless policy consisting in keeping interest rates too low between 2003 and 2005. His other fault consisted in insufficient regulation of innovative financial instruments (derivatives). Before the market collapse, credit default swaps and collateralized debt obligations were thought to spread risk. In fact, they were mostly traded by several financial institutions which put the entire financial system at risk. Greenspan's easy supply of money added to the problem. Increased liquidity was to remedy economic problems. The thinking went that easy supply of money would increase consumer spending and thus help the economy. The side effects of this sort of policy turned out to be dangerous. Increased liquidity led to inflated housing, derivatives and stock market bubbles.

Global saving imbalances are presented as factors which made the crisis worse. After 2000 the U.S. and Chinese economies fused. China exported cheap goods to America which enabled them to gather huge savings. As a result, China was capable of financing U.S. budget deficit. The policy benefited American consumers as it allowed them to save a lot of money buying cheap Chinese goods. On the other hand, U.S. companies invested heavily in China benefiting from the growing Chinese internal market (Karabell, 2009, pp.1-4). The fact that the cooperation seemed to be mutually beneficial does not mean, however, that it was deprived of dangers for the world economy. The Americans borrowed too much and the

Chinese built an export oriented economy. Huge trade surpluses have resulted in China's \$2.4 trillion foreign exchange reserves. Two thirds of the money is held in U.S. dollars. Thus, the rebalancing of the global economy depends on China's exchange-rate policy. China prefers its currency to be low to foster its exports (Samuelson, 2010a, p.4).

The bond-rating agencies misjudged the safety of mortgage backed securities and banks hid their operations by using off-balance-sheet entities. A lack of transparency with regard to risks precipitated the collapse of markets. Traders relied excessively on mathematical models in their decisions and took on excessive risk as they wanted huge compensations. Banks were overleveraged (Weisberg, 2010, p.16).

Another set of arguments concentrates on human nature. People tend to be greedy, shortsighted and foolish. They do not realize that history repeats itself also with reference to financial markets. Even a protracted bull market has to be followed by a bear market. Nevertheless people tend to say that this time is different (Reinhardt & Rogoff, 2009, pp. 68-72). However, the boom-bust economic cycle has not been abolished. It is part of capitalism. People tend to be irrationally exuberant during bubbles and they despair during busts. The boom-bust cycles are closely connected with human nature. The longer governments try to engineer a protracted period of economic growth the more painful the next bust will be. Tolerating milder and more frequent recessions can benefit national economies (Samuelson, 2010b, pp. 36-37).

Traditionally the state of the American economy would not affect the economies of other states to such a degree. However, we are living in a globalized world, globalized meaning interconnected. The financial meltdown in the U.S. quickly turned into the global financial downturn and in consequence into the global recession. After benefiting from globalization for some time, the world bore the consequences of economic globalization.

What has happened is highly contentious from a scientific point of view. Economists argue over the causes and consequences of the great financial downturn providing different explanations and making predictions about the future of the global economy. Several books concerning the fallacies of free-market capitalism have recently appeared on the market (e.g. Cassidy, 2009, pp. 17-110). The efficient markets theory seems to be in decline. Markets are not efficient and self-correcting and the trickle-down effect does not work as people are irrational actors. The adaptive-markets hypothesis looks at the economy through the prism of evolutionary biology. Financial markets are an ecosystem of living organisms vying for profits. Neuroeconomics tries to explain human behavior by analyzing the human brain. Behavioral economics is becoming increasingly popular with economists. Each of these theories is partially right (Foroohar, 2010c, pp. 36-38). It is however difficult for politicians to device an economic policy in the absence of an underlying economic theory.

The Consequences of the Great Financial Downturn (the New Normal)

The great financial meltdown was followed by a deep recession in highly developed countries often referred to as the Great Recession. Economists claim that it was not the same as the Great Depression of the 1930s but that the world nearly averted the next total economic collapse. Nevertheless, what the world economy has been experiencing is the beginning of a protracted period of economic difficulties. Many economists talk about the Japanese scenario which means a long period of low economic growth. Reinhardt and Rogoff (2009) maintain that on the basis of historical experience one might expect high budget deficits, high inflation, high unemployment, low economic growth and a wave of sovereign defaults (pp. 208-237).

Several EU member states are currently in danger of default. The economic turmoil is to last for at least several years. The development of globalization is going to slow down which, in turn, will make it more difficult for the world economy to recover. Trade wars are possible, particularly between China and industrialized countries. If it turns out to be right, this scenario will have numerous social and political consequences both in Western countries and for the global economy. The so called new normal will be characterized by the following phenomena:

- 1) A “Generation Recession”. The psychology of people is mostly shaped by early experiences or the milieu in which they grew up. People’s values and behaviors are shaped by tough experiences in early adulthood. Young Americans are experiencing a very difficult period in economic terms. The unemployment rate has reached 10 percent. For young adults it is even higher reaching 15 percent. As a result, young Americans are less self-assured. Therefore, they are going to make less money, spend less, choose safer jobs and believe in state intervention and wealth redistribution. They are also going to be more cynical and depressed and invest less in the stock market. This entire generation will be permanently altered. A higher unemployment rate will contribute to lower pay. The spending power of Americans will decline. This, in turn, will affect future economic growth in the U.S. The world economy will also bear the consequences as the American consumer traditionally was the driving force behind world economic growth. The above mentioned phenomena are already visible in Western countries. A sense of insecurity as well as the personal savings rate are growing. Americans are pessimistic with regard to future economic growth (Feroohar, 2010b, pp. 22-23).
- 2) The disconnect between the fate of big companies including banks and labor. Big companies and banks have been recovering from recession. Currently they are already in the black. At the same time the situation on the labor market remains difficult. The biggest banks are funding each other, developing complex securities and investing around the globe. They are no longer interested in funding small businesses which create most jobs. Without easy access to loans small companies are unable to recover and hire people. Big international companies are shedding workforce concentrating on increasing productivity by doing business overseas. In consequence, big business may be doing well, but the unemployment rate is high and it is going to remain high even after the recession ends.
- 3) The divide along demographic lines. There is a growing divide between boomers and younger people. The costs of health care and Social Security are going to increase substantially as the boomers approach retirement age. On the other hand, young people are the future of every society. It is necessary to invest in their education, job training and help them in many other ways. The young should be self-assured if they are to raise families. Without a proper birthrate economies suffer from the lack of workforce in the long term. Rising budget deficits make it difficult to reconcile the needs of the retired and the young.
- 4) Problems with globalization. One might think that the forces of economic globalization have been weakened. Globalization immensely contributed to the creation of wealth. In the current economic climate every country intends to export as much as possible and to protect its own economy (especially its labor market). Exporting requires a proper exchange rate. That is the main sticking point between industrialized countries and China. The United States and the European Union

maintain that China artificially lowers the value of its currency to promote exports. Industrialized countries start imposing quotas on Chinese goods claiming that what Chinese do amounts to dumping. This can result in increased protectionism or even a sort of trade war which can exacerbate the current economic crisis (Foroohar, 2010a, p. 6). Protectionism also applies to the immigration of workforce. Developed economies need immigrant workers as their societies are graying. This sort of protectionism can be detrimental to economic growth.

- 5) The end of social upward mobility. There have been problems with social upward mobility in industrialized countries since the 1970s. Middle-aged Americans still believe that hard work brings benefits and can raise you from rags to riches. However, young Americans tend to think that the system is rigged and that success in life depends more on luck than on hard work. Such growing attitudes may lead to lower productivity and lower economic growth.
- 6) Rising influence of international capital on national economies and governments. The world's financial assets have reached \$200 trillion by 2008. Cross-border capital flows reached \$11 trillion in 2007. Before the great financial downturn foreign investors owned about 30 percent of government bonds and 25 percent of equities. If foreign investors are spooked as a result of poor management of a national economy, they may withdraw their money or decide not to buy government bonds (Garten, 2010, p. 18). The example of Greece demonstrates how dangerous capital flight may be.
- 7) An anemic recovery. The advanced economies face many headwinds. Irresponsible private companies (banks in particular) have been bailed out by national governments. The total economic collapse was averted but currently states suffer under the burden of debt (public and foreign). In some countries, particularly the PIIGS (Portugal, Italy, Ireland, Greece and Spain) the level of debt is so high that the situation has become unsustainable. Helping those countries (e.g. by buying their government bonds) will not solve the situation. They can try to repay debts triggering a recession or they can default. Some economists claim that defaulting is a better solution for heavily indebted countries as they can regain their competitiveness. The above mentioned problems refer to the biggest Western economies as well. In such circumstances the economic recovery in advanced economies will probably be slow. Scientists disagree over the pace of recovery in Western countries. Gross (2009, 2010) predicts that at least the American economy will recover at a fast pace (2009, pp. 40-42; 2010a, p. 12). Ferguson (2009), in turn, claims that the United States is economically weak being an empire at risk (pp.26-30). The number of distinguished economists who claim that the recovery will be slow is growing (e.g. Krugman, 2008, pp.154-168). The Greek crisis raised fears that we will witness a sub-par economic recovery in the West.
- 8) The rise of state capitalism. The Chinese economy fared better during the latest recession than advanced economies. Therefore, it would seem that state intervention is more effective than *laissez faire* capitalism. The state uses state-owned companies, large privately owned companies and sovereign wealth funds to exert influence over its population and on the international stage. The Chinese government is especially adept at it (Bremmer, 2010, pp. 30-31).

Forecasting the Future of the World Economy and the World Balance of Power

It has recently been very popular among pundits to regard the United States as a declining power and China as a rising power. This trend has supposedly been exacerbated by the current economic downturn. Extrapolating current trends into the future, economists claim that the Chinese economy will overcome the U.S. economy in 20 or 40 years. The global balance of power will change. Jacques (2010) even claims that China will emerge as the only superpower (pp. 40-41). The American economy suffered enormously as a result of the great economic downturn and the Chinese economy continues to grow at a very fast pace.

Emerging countries fared well during the financial crisis. Their economies experienced an economic slowdown whereas developed economies shrank during the crisis and are currently stagnating. In consequence, American consumers will cease to be the only force. The middle class is rapidly growing in emerging markets. In 2009, 70 million people joined the middle class in developing countries. The spending power of the new middle class will surpass the spending power of the Western middle class within twenty years. The Asian middle class will be able to offset indebted American consumers in five to ten years. In 2050 the biggest emerging economies will represent 60 percent of the global economy. Leading Western companies are already moving their executives to China and India (Feroohar, 2010d, p. 5). Western companies increasingly rely on emerging markets for growth in sales. As a result, the leaders of developing countries are not willing to take into account the advice of Western governments and economists with regard to their economic models (Feroohar and Margolis, 2010, pp. 24-27).

Chinese elites do not identify with Western values both in terms of the economy and democracy. A return to greater state intervention and less democracy seems inevitable. The global economy cannot be rebalanced without changing China's exchange-rate policy. China benefits from the current world order, but refuses to bear its costs and it is not willing to contribute to the international public good (Pei, 2010, p. 40). China wants to participate in setting the future world standards and rules. It seeks to influence international organizations by increasing its voting rights. The yuan is to rival the dollar as the most important international currency. An increasing number of international transactions are carried out in the yuan, especially in South-East Asia. The Chinese currency will be used as a trading currency with Russia, Japan, Korea, India and Pakistan. The Yuan will acquire the status of an international currency which is freely convertible. China is trying to reshape the international system in accordance with its own national interests. However, a richer and more influential China will not resemble the United States, nor will Chinese policy converge with the interests of the West (Feroohar and Liu, 2010, pp. 26-30).

Forecasting the future world balance of power relies to a large extent on the predicted size of the biggest world economies. There will be economic superpowers and second-class powers in the world. The former will include the United States, China and the European Union, the latter will include India, Brazil, Russia and Japan. Economists coined the term BRIC meaning (Brazil, Russia, India and China). The BRIC countries are to become world economic leaders in the future. Western companies will increasingly depend on BRIC's for growth which will give these countries bigger economic and political clout. Western economies will no longer account for the majority of the world economy. It is important to assess future economic growth of the leading economies.

There are some signs that the United States is at the post-imperial stage. American foreign and economic policy have been reoriented. The war on terror has been narrowed, the conflict with the Islamic world is less acute, and the relations with other powers like Russia and China are no longer characterized by a bipartisan approach. The United States does not direct the rest of the world any longer. Other powers are not pushed to adopt American views and they are not chastised when they disagree with America (Zakaria, 2009, pp. 48-53). This new reality reflects economic problems. The United States is not able to meet its international commitments in financial terms. Renowned economists disagree over the outlook for the American economy. The majority of them predict a prolonged period of low economic growth (about 2.5-2.8 percent per year). Nevertheless, there are optimists who claim that the average growth rate will reach 3.5 percent due to innovation and advances in productivity. America has proved on several occasions that it can overcome economic problems and emerge on top. The Chinese economy will surely overcome the Japanese in 2010. However, pundits have a tendency to extrapolate past tendencies into the future. As a result, it is predicted that the U.S. economy will undergo a protracted period of economic stagnation whereas the Chinese economy will continue to grow at the annual rate of 10 percent. Such predictions are unrealistic. America has proved on numerous occasions that it can reinvent itself finding new ways of overcoming different sorts of crises. The pace of economic growth may slow down, but still the American economy will remain one of the most vibrant world economies. American entrepreneurship coupled with the inflow of immigrants will ensure economic success in the future (Kotkin, 2010, pp. 209-244).

To the contrary, the Chinese economy will face serious problems in the coming years. Sharma (2010) claims that "China appears to be reaching a critical turning point, at which it has become too big to continue growing so rapidly" P. 34). China will be forced to revalue its currency which will make exports less competitive. The one-child policy will result in a graying workforce. Wages will rise faster as the workforce will shrink. The power of labor will increase. In consequence, manufacturing will go to poorer countries in Asia and Africa. The property bubble will no longer be inflated as the Chinese government is trying to cool down the property market. Property constitutes a third of investment spending. Therefore, cooling down the property market will inevitably slow down the Chinese economy. The more advanced the Chinese economy becomes the more difficult it will be to maintain a high rate of economic growth. The examples of Japan or Taiwan are telling with this respect. Taking into account the above mentioned trends, one should expect that the growth rate of the Chinese economy will drop from over 10 percent to 6 or 7 percent (Sharma, 2010, pp. 33-35).

Russian leaders were swaggering when oil prices peaked at nearly \$150 per barrel. Russian president, Vladimir Putin, wanted to revive Russian might on the basis of oil and gas exports. The great economic crisis demonstrated that Russian economic growth was not based on a sound economic policy. When the prices of prime materials fell the Russian economy was especially hard hit (it contracted by 8.5 per cent in 2009) (www.ebrd.com/news/pressrel/2009/091015_forecasts.pdf). According to the International Monetary Fund, Russia dropped out of the list of the ten biggest world economies being overtaken by India and

Brazil (http://globaleconomy.suite101.com/article.cfm/gdp_estimates_for_richest_countries_in_2009; [En.wikipedia.org/wiki/List_of_countries_by_GDP](http://en.wikipedia.org/wiki/List_of_countries_by_GDP)). Moreover, the Russian economy is plagued by crony and even criminal capitalism. Companies may be stolen from their owners and Russian businessmen have to pay off corrupt officials and thugs. According to a recent survey, 71 percent of Russian enterprises regard themselves as victims of different abuses

(Matthews & Nemtsowa, 2010, p. 26). Western investors are not shielded from such practices (e.g. their companies can also be stolen). Western energy companies were deprived of the right to develop Russian oil and gas fields. These developments resulted in the withdrawal of Western investors from Russia. In consequence, the Russian stock market slumped and the rouble experienced a sharp drop in 2008. Russia had gathered a huge rainy day fund before the crisis, but the vast majority of available funds have already been used up. Russian companies are heavily indebted and the Russian banking sector is weak. Russian companies have to rely on the state budget and foreign banks for financing their current operations. Developing new oil and gas fields is costly and requires expertise Russia does not have. Other branches of the economy are still weak. The European Union aims to diversify away from Russian oil and gas. Taking into account the above mentioned trends, the future of the Russian economy looks bleak. Without strong economic foundations Russian military and political might will continue fading, especially in comparison with other vibrant emerging economies.

The Japanese economy is still very big which would normally signify that Japan is one of the great powers. In reality, the burden of the public debt is so big and the population is so old that the Japanese economy can hardly develop in the future. Without deep social and economic reforms Japan will remain stagnant in the foreseeable future. It is also very difficult to invest money in Japan or sell goods there. As a result, although the Japanese market is huge, it is not very attractive for foreign capital and companies. Japanese business elites are very conservative. They resist mergers and acquisitions. What is more cash-strapped Japan is not willing to engage in international peacekeeping both in military and financial terms. To sum up, Japan has a great potential to play an important role in international relations, but internal problems, both economic and political, will prevent it from becoming an active world player.

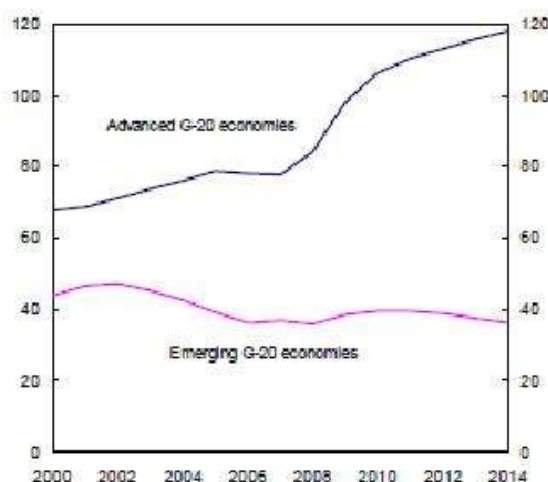
The European Union is already a major world player both in economic and political terms. The EU economy is on par with the U.S. economy with reference to size. Americans treat the European Union as an equal partner with reference to international trade (McCormick, 2008, p. 330). The EU economies grow slowly in comparison with the economies of emerging markets. However, the sheer size of the EU economy makes it a global player. EU member states take part in international peacekeeping missions and have numerous voting rights in international economic organizations. Even though EU foreign policy lacks coherence, the outside world wants to maintain good relations with the European Union as its internal market is enormous and the organization is the biggest trading block in the world (Dinan, 2005, pp. 519-520).

Economists predict that the Brazilian and Indian economies will enjoy a very high growth rate as both economies are based on internal consumer spending. They do not intend to grow by exporting goods to advanced economies. The growing middle class and vibrant populations will ensure economic success. Both economies have recently overcome the Russian economy and according to available economic data belong to the ten biggest world economies. Their economic model is more sustainable than the economic models of Russia or China. The Russian economy is too dependent on the export of prime materials and the Chinese economy relies on exporting low-end manufacturing goods to advanced economies.

Advanced economies will develop at a slower pace than emerging markets. The welfare state and aging societies will require increased government spending and as a result, will cause high government debt. The burden of private debt is also enormous and it will prevent households from spending. The economic recovery can be already seen in Western countries,

but on the other hand, their long term economic weaknesses call the recovery into question. Cutting budget deficits would require cutting spending or raising taxes. These measures would weaken the recovery. However, failing to take these measures would cause the next financial crisis. Financial markets can be scared by massive debt. The interest rates would rise, the value of old government bonds issued at lower interest rates would drop. In consequence, banks and other investors which are big holders of national bonds would suffer huge losses. This scenario could refer to the most developed economies (Samuelson, 2010c, pp. 29-30). J. Lipsky, first deputy managing director of the IMF, says that with the exception of Canada and Germany, the G 7 countries “will have debt-to-GDP ratios close to or exceeding 100 percent by 2014” (<http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aa4A6nIg1YNA>). Emerging markets, meanwhile, are projected to hold their debt steady at about 40 percent which will favor economic growth. The following graph presents projected government debt ratios for advanced and developing economies between 2000 and 2014 (IMF projections).

Figure 1: G-20 Countries: General Government Debt Ratios, 2000-2014 (In percent of GDP)



Source: <http://moneywatch.brat.com/economic-news/blog/macro-view/india-prefers-gold-over-paper-as-developed-economies-pile-on-debt/1187>

The example of Greece is telling with this respect. Excessive budget deficit is not manageable and leads to either economic stagnation or bankruptcy. The rescue package for Greece addresses liquidity and not solvency. The crisis will not go away as a result of the package. Some economists argue that Greece is small and therefore it cannot trigger another financial crisis. Unfortunately, numerous European banks hold Greek government bonds (the exposure of EU banks to Greek debt totals \$193 billion). The collapse of Greece would hit European financial institutions enormously. Therefore, the rescue package should be regarded as a

bailout for Europe's banks (Theil, 2010, p. 10). Moreover, the rescue package should not be regarded as the end of the Greek crisis. The Greek government will be forced to introduce severe fiscal tightening which will trigger a recession. It is probable that Greeks will not be able to repay their debts. Ferguson (2010) predicts that the holders of Greek bonds will lose 30 percent of their money (p. 26).

Conclusions

Imbalances in global savings can be regarded as the real cause of the great financial and economic crisis. There was a connection between the high-consumption Anglo-Saxon economies and the export-led East Asia and German economies. Big exporters accumulated huge trade surpluses which were coupled with the growing U.S. deficits. Enormous capital flows resulted in a huge distortion of both interest rates and risk management (Smadja and Prestowitz, 2010, p. 39). Currently free market capitalism is no longer popular. The fallacies of free-market fundamentalism are criticized. Economists coined the term "the new normal" to describe advanced economies and the world economy in the aftermath of the great financial downturn. Increased state intervention, a recession generation, the disconnect between the fate of big companies and labor, the end of upward social mobility, the raise of state capitalism, changes to the process of globalization and the influence of international capital on national economies are new phenomena which will influence the economic situation in advanced economies and the world economy.

The great economic downturn will accelerate changes in the world balance of power. For instance Smadja and Prestowitz (2010) talk about "a tectonic shift in the global economic structure that would mean a similar shift in political power" (p. 39). The process of globalization will be revolutionized. China will rely on exports to the U.S. to a lesser degree as production will move closer to end markets. Regional economic integration will progress. Globalization will no longer mean Americanization. Pundits talk about limiting free trade, migration and rising protectionism. One might think that the forces of economic globalization have been weakened, but globalization contributed to the creation of wealth to a large degree. The world will witness "a fundamental realignment of global economic power and influence". Developing countries which were regarded as unimportant several years ago will emerge on top. These countries are accumulating enormous financial wealth becoming creditors and investors rather than debtors and borrowers. Sovereign wealth funds created by these countries are important global players on the world financial markets (El-Erian, 2008, p. 14). The great financial crisis dealt a blow to America's prestige and U.S.-style capitalism. Advanced economies had to rely on emerging markets to overcome the crisis. Advanced economies will no longer constitute the majority of the world economy, According to IMF projections the Asia-Pacific region will account for 45 percent of global GDP in 2015 (Margolis, 2010, p. 46) and Western companies will increasingly rely on emerging markets for growth.

These trends will develop even if advanced economies recover. However, some economists claim that these economies are indebted as a result of the stimulus. Rising welfare costs, high unemployment and aging populations will add to their economic problems (the economic recovery will be slow and can be derailed by sovereign debt defaults). A good example of what the future might hold is provided by the Japanese economy. The average growth rate for advanced economies will be much lower than that of emerging economies. In consequence, the importance of emerging economies will grow. The trend is especially visible in the case of

China. Western companies are forced to play by Chinese rules even if the rules are incompatible with Western standards. China finances American debt by buying American treasury bonds which will allow China to influence America in the future. Companies from emerging markets buy Western companies to get better access to Western markets. The great financial downturn and the ensuing economic crisis precipitated changes in the world balance of power as advanced Western economies have been affected to a far greater degree than the biggest emerging markets. As a result, a new multi-polar world will be created in which western economic rules and values will no longer be emulated. Free market capitalism, human rights and democracy will be weakened.

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