

Causes and Consequences of the World Financial Crisis 2008: A Historical Perspective

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Abstract: *This paper situates the 2008 Global Financial Crisis into the wider historical context to argue that the roots of the crisis can be traced back to the dominant economic ideology in the West during the 1970s. It shows that the corresponding financial policies, implemented by the powerful western economies during the four decades that preceded the crisis, created an institutional framework that fostered financial irresponsibility and made the crisis all but inevitable. The paper also explores the ideas that led to the stabilization of the global market as well as the role of China in charting the way ahead. Ultimately, the discussion highlights the inherent tendency of neoliberal economic ideology to create market instabilities whose consequences for the global economy can be devastating.*

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“History repeats itself, first as tragedy, second as farce.”

Karl Marx

Introduction

In the year 1999, the upcoming new century was for many seen as the new beginning, the new decade, the whole new era. This period, i.e., the last decade of the 20th century was marked by the transition from the bipolar system of the Cold War era to a new one, which can be rightly called unipolar. Namely, with the collapse of the Soviet Union, the United States emerged on the world stage as the only truly global superpower (Brzezinski, 2000, 2012). Many elements of the former world order, such as ideological confrontation, became irrelevant. New geopolitical realities have pushed a considerable number of states to begin to redefine their national interests. At the same time, the new global economic and political centers of power, as key elements of international relations, took their final shape and announced accelerated development. A significant feature of this new phase of international relations is the growing role of the economy, including the energy component, in global politics (Chevalier, 2009).

Many visionaries believed that the 21st century would bring us flying cars, new findings on the Moon, new planets on which humankind would be able to live, new technologies that would speed up the processes of evolutions, and the overall wealth, prosperity, and wellbeing. However, the first decade of the 2000s will be remembered by many not-so-positive developments. Promising new inventions, such as Wikipedia, My Space, iPod, the world’s first 1 gigabyte SD card, YouTube, Facebook, Twitter, and Kindle are not the first associations to the new century to the majority of the people. On the contrary, it will be remembered by many for one of the biggest protests in the Balkans which resulted in the last dictator in Europe, Slobodan Milošević, being overthrown and brought to justice. The 9/11 terrorist attack on the Twin Towers and Pentagon eventually escalated into the war in Afghanistan in 2001, only one month after 9/11, and the Iraq invasion in 2003. Saddam Hussein was executed, and Angela Merkel became the first female Chancellor of Germany. Environmental issues reached the top of the global agenda with scientists starting to pay serious attention to the Arctic Sea ice melting. The end of the decade celebrated the first African American President of the United States but also marked the beginning of Arab Spring, a series of uprisings, rebellions, and armed conflicts across the Islamic world from Tunisia, Libya, Egypt to Yemen and Syria.

It was the beginning abundant in events, with one leaving a special mark on the world globally, with consequences that can be felt even ten years later. The world financial crisis peaked in 2008, representing the biggest and most fatal financial crisis since the 1929 Wall Street stock market crash. The so-called Great Depression, which started in the United States in 1929 and lasted for a decade, had very serious, if not devastating consequences on every country worldwide, irrespective of its national wealth.

It is said that history repeats itself, which is very true when it comes to the economy. Some scholars like Karen A. Mingst emphasize historical economic continuities rather than change. In her book, *Essentials of International Relations*, Mingst thus emphasizes that “while economic globalization has emerged full bloom in the twenty-first century, its roots can be found in the writings of the eighteenth-century British economist Adam Smith” (Mingst, 2008: 249) By contrast, liberal enthusiasts of globalization, assert that the development of modern technologies is creating a “more efficient, more unified world order” (Woods, 2001: 290), and, therefore, the change of economic processes.

Although the beginning of 1929 thought us great lessons about unregulated markets, these lessons did not stick 80 years later. This paper will, therefore, aim to explain the processes that started in the 1970s and 1980s, and the final triggers for the Great Recession in 2008. Thereafter, it will aim to clarify the causes and the consequences of the second-worst economic decline of all times, the consequences of which are still felt today. This financial crisis gives us a whole new outlook on different perspectives of the international political economy. In this sense, the paper will discuss the possible solutions, the main ideas that led to the stabilization

of the world market, and the role of China as a communist state that helped the United States come out of the crisis. Ending with a conclusion, we will see what scientists have to say about the year 2020 for the economy and explore whether a new financial crisis is on the horizon.

20th Century Economic and Political Developments

The economy is known to have periodic fluctuations. At every occurrence, they progressively become broader and last for a longer period. When their impact is much more serious than usual, we have a period of financial crisis. Due to the processes of globalization and interdependence between states and markets, in other words, interdependence between economy and politics, it is difficult to define where politics end and the economy begins, and vice versa. The world web called the international market is now so intertwined that there is rarely a financial crisis of one state that has an impact only within its borders. The spillover effect happens more easily than we can imagine. This suggests that we can only understand the processes of the 2000s if we look at the dominant economic ideas of the 1970s and 1980s, which created the basis for the collapse in 2008.

Since the 1970s, it is reported to have been at least 124 economic crises in the world (James, 2009: 249). Unlike Marx, who forecasted that financial crises were inevitable in capitalist economies, most economies could not foresee them happening or rather did not want to believe they would occur (Naudé, 2009). After the Bretton Woods system collapsed, it was exactly the US and the United Kingdom whose economic performances declined. Ironically, these two powers were the engine of the creation of the new monetary system towards the end of World War II. 730 delegates representing 44 allied nations met for the UN Monetary and Financial Conference held in July 1944 at the Mt. Washington Hotel in Bretton Woods, New Hampshire to architect a new global monetary and economic system. By fostering free international trade, the system was supposed to ensure Europe be rebuilt after the most devastating war in human history, as well as to prevent economic and political collapse and another military conflict on the European soil.

The Bretton Woods conference was the first and the only official, formalized, and systematic event that led to the establishment of a liberal international economic order – international monetary system (IMS) asset or strict rules, regulations, and institutions: „IMS is a macroeconomic concept that encompasses the exchange-rate regime, the regime for capital movements, the mechanism for international liquidity creation and distribution, and the "rules of the game" for the adjustment of international payment imbalances.“(Savona, 2000, 16) The system was based on fixed exchange rates, dollar convertible into gold, and other world currencies pegged against the dollar as a reserve currency, thus being the gold-dollar exchange standard. Why dollar? Simply because towards the end of the Second World War United States was the largest world economy in possession of two-quarters of the world's gold supply (Pamir, 2007). The Supreme, global position of the dollar was further strengthened by a special agreement made in 1945 between President Roosevelt and the Saudi King Abdul Aziz known as the „Oil for Security Agreement “. In a secret meeting, onboard USS Quincy, it was agreed that the United States would provide the ruling Saud dynasty full protection from all inside and outside enemies, in return, Saudi Arabia would ensure the U.S. unhampered and unlimited access to its oil supplies. In this way, the most extensively traded goods in the world – oil – has been and still is, to most extent, priced in dollars. This marked the birth of the U.S. petrodollar (Clark, 2005).

The system established will stay remembered as the Bretton Woods System, however, it did not last long. The strains surfaced already in the early 1960s, and the system completely collapsed on August 15, 1971, with the so-called Nixon shock, which ended the convertibility of U.S. dollars to gold and introduced free-floating of the values of the world currencies in the marketplace by 1973. The shock, although not devastating, still slowed global economic growth, which in turn negatively reflected on salaries and employment rate, triggering at least a dozen subsequent financial crises starting with the 1973 oil shock and culminating in the 2008 financial crisis (Bahgat, 2005).

Why is the year 1973 so important? In October 1973, the Organization of Petroleum Exporting Countries (OPEC) imposed an oil embargo on Western countries, the United States, the United Kingdom, Canada, etc. as an act of retaliation for their support to Israel during the Yom Kippur War. Oil supply was cut and the subsequent 400% increase in oil price had severe effects on global economies. This was the first time that economic power was used as political leverage by Arab countries, although the former Soviet Union did so as well and nowadays Russian Federation has been doing it extensively. 1973 oil shock showed the power of economic tools in politics, complex interdependence of politics and economy, and gave further momentum to the process of globalization. The events from 1971 and 1973, are considered the cornerstone of the contemporary international political economy (Yergin, 2005).

What happened in 1971, 1973, and 1977 can be seen as the beginning of a process that led to the financial crisis 30 years later. The United States (US) passed a federal law called the Community Reinvestment Act (CRA) which “tightened credit standards for the US commercial banks and savings associations as it required the provision of loans for the whole market segment” (Černohorská, et al., 2009). What this essentially meant was that the government relaxed its lending standards, meaning that almost everybody was able to get a mortgage. This was the year that ended the thirty glorious years of capitalism (1948-1977) when financialized capitalism was introduced. The beginning of these neoliberal years could already, in the beginning, be predicted as intrinsically unstable – they privileged only the richest and the smallest percentage of the population, which made financial instability increase, producing a larger inequality between the rich and the poor. Thanks to the information technology emergence, finance-capitalism was able to rise, helping commercial banks to use shadow bank systems with which they were able to borrow and invest billions of dollars, through intermediaries (hedge funds, private equity groups, money market funds) (Bresser-Pereira, 2010).

Another incentive of the financial crisis came from the Organization of the Petroleum Exporting Countries (OPEC), which started recycling the petrodollar into the currencies of Western banks and institutions. As a result, Western states began to encourage less developed states to borrow, so that their economies could grow, meaning they had more money to invest in the Western states or to do business with them. However, given the fact that the mortgage actions were uncoordinated and unplanned, both debtors and creditors fell into the trap. Too many borrowed too much, which meant that the economy was not able to handle it. Some states, such as Turkey and South Korea, managed to get out of this problem, or to surpass it, however, most of the states could not (Balaam & Dillman, 2014).

During the 1980s, the banks introduced two new financial innovations – securitization and derivatives – with which they attempted to gain back their losses. Yet, this awkward mingling did not show a way out of the crisis. Neoliberal ideas became hegemonic, and financial markets became more and more deregulated, with Keynes’s lessons forgotten and left-back in the 1930s. Neoliberal President Reagan tried to introduce debt swaps, where the people unable to pay off their debt could have swapped a part of their land or similar properties for their loan, which in the long run again did not solve the problem. Reagan and the British Prime Minister Thatcher reduced their taxes, however inefficiently because it created the deregulated sectors of the economy, with banking as the primary sector.

The Reagan administration influenced the International Monetary Fund (IMF) and the World Bank, both established at the Bretton Woods Conference, to help less developed states open their markets, to help the financial crisis. IMF required certain policies in return for loans, such as price stability and fiscal austerity, which allegedly were supposed to help with capital control. The poor were, again, in the loss. With different methods of trying to eliminate welfare that states have given to their population, the thirty glorious years of capitalism soon became the “thirty black years of neoliberalism” (Bresser-Pereira, 2010). What the neoliberals, however, have forgotten, is that there is nothing natural about capitalism or its institutions. They may be effective, but they are not determined, nor does every community strive towards it. The fact that globalization started to spread worldwide, only complicated the process of getting out of the crisis, since the crisis spread with it. This, in the end, will be an important note to understand the role of China when the US needed help to get out of the crisis in 2008.

The CRA continued into the 1990s, now with a policy in 1995 that low-income borrowers were able to get loans. Although the banks did not necessarily want to do this, the government-imposed sanctions on those who did not, making the application for loans much easier. The first crisis arose in Mexico, in 1994, after the country joined the North American Free Trade Agreement (NAFTA). Mexico suddenly received a huge capital inflow coming from pension and retirees' funds, copyrights, etc. Suddenly, the prices of real estate and stocks and bonds in Mexico increased significantly, but what new investors did not consider was the Mexican political instability. When the political crisis erupted, following the assassination of the presidential candidate, Luis Donaldo Colosio, the Mexican government had to pay the US investors in dollars, which soon meant that Mexico would run out of dollars. Their inflation and unemployment rate jumped to 7.6%, while their GDP fell dramatically (Balaam & Dillman, 2014).

Two years later, another crisis happened in Asia. It started in Thailand, whose currency was devaluated overnight. This produced a spillover effect on other Asian states, with Thailand having to pay the US over one dollar for every 25 baht that were withdrawn from their banks. Many businesses from Thailand went bankrupt because they were not able to pay off their loans to the US. Russia had soon been also affected, due to its ineffective transition from communism to capitalism, while Argentina struggled from 1999 to 2002, resulting in an unemployment rate of 20% and a robust public debt.

While the USSR was collapsing at the beginning of the 1990s, Western states took the opportunity to introduce the newly established states to democracy and its institutions. Many of them accepted it and started the processes of democratic transition. Yet even though the Western countries have created economic institutions to build foreign currency reserves and keep their economies stable, the developing states refused cooperation with the IMF. It wasn't until the financial crisis that the Western world understood why. The less developed states saw the Washington Consensus from 1971 and the neoliberal ideas as uncertain and unreliable, while the richer ones followed neoliberalism as their main economic guiding principle.

The Challenges of the New Millennium

With the beginning of the new century, it became obvious that neoliberal ideas could not be applied any longer and that the market needed regulation. Yet, the newly elected US President George Bush continued to push for deregulations. Markets were considered efficient, self-regulating, and good at managing themselves. The Nobel Prize-winning economist Paul Krugman said that these beliefs were “dangerously simplistic, naïve, and ahistorical”. (Balaam & Dillman, 2014)

The new decade continued with families taking large mortgages without any intention to pay them back. It was exactly this market that sent in 2007 the first signals that the US was entering a financial crisis. However, other problems were emerging on the horizon, such as a huge US trade deficit with China and Japan. These two states took the opportunity to buy a large amount of US stocks, treasury bills, and other financial instruments. Americans preferred cheap imported goods, while the states that imported them lend the US money. Americans continued to borrow and spend, and this is evidenced by the fact that their consumption ratio grew from 67% in 1997 to 71% in 2007 (see Figure 1). (Černohorská, et al., 2009).



Figure 1: The US Personal Consumption Expenditure in 1950 – 2007 (% of GDP) (Černohorská, Černohorský, & Teplý, 2009)

When it comes to large investment banks, such as Goldman Sachs, Lehman Brothers, Morgan Stanley, and similar, their “ratio of loans they made over the number of funds they kept in reserve grew to unprecedented levels (Balaam & Dillman, 2014).” However, people did not borrow money only to buy houses but were rather spending billions of dollars on loans as well.

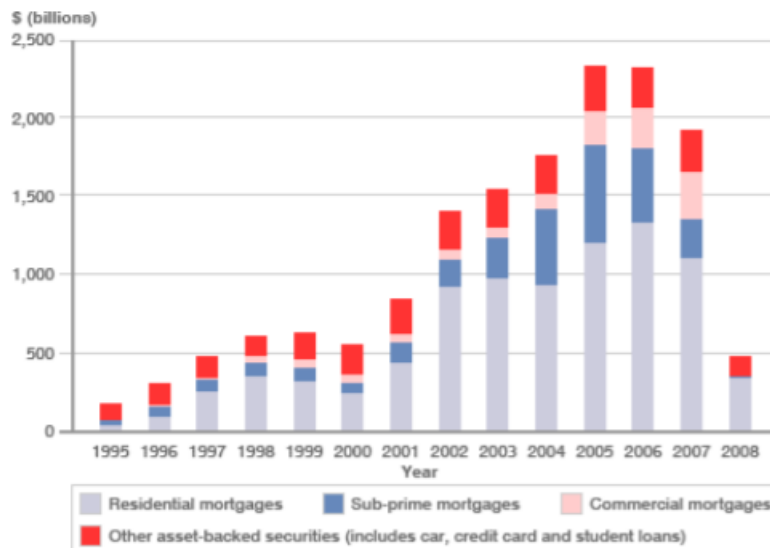


Figure 2: Global issuance of bonds backed by mortgages in 1995 – 2008 (Černohorská, Černohorský, & Teplý, 2009)

In 2006, the subprime mortgage market began to crumble. However, the alarm sounded only in 2007 when large companies started to report losses amounting to billions of dollars, which made the government respondent in an ad hoc manner. Interest rates were lowered, and the money supply was given to banks. This allowed Asian states to start buying stocks for a small amount of money. The so-called real estate bubble finally began to burst in 2008. The Fannie Mae and Freddie Mac, loan agencies, gave around 6 trillion US dollars in mortgages alone, which made the government nationalize it in September the same year. The company Lehman Brothers, the fourth-largest investment bank, was not protected, leaving millions of people around the world in trouble.

Most of the people in the United States had their pension funds in their companies, which left a mark on people around the world as well. The government took a huge risk by saving Fannie Mae and Freddie Mac, but it was not able to save private companies (Q&A: Lehman Brothers bank collapse, 2008). At the same time, firms and businesses were not able to pay off their workers, so they started laying them off. The state was not able to pay for schools and tuition, which then led to a decline in the education sector. Americans who were spending more than earning now abruptly stopped spending money and every tenth house was unable to make payments. Since many banks had to take properties from their borrowers, now they were left with properties they had to sell for less than their value, to get at least some of their money back (Balaam & Dillman, 2014).

The US government strongly believed that if they did not solve the problem, it would have a major global effect. On October 3rd, 2008, the Bush administration decided to sign the Troubled Assets Relief Program, also known as TARP, within the Emergency Economic Stabilization Act. This meant that the state had used around 700 billion US dollars of tax money to buy bad assets in banks. By implementing this measure, they hoped they would keep the economy growing, which was something that the Obama administration continued later in the decade. Officials also managed to give 250 billion dollars to the US banks. According to the Congressional Budget Office, the States were able to return most of the money invested, with a loss of only 24 billion dollars (Balaam & Dillman, 2014).

China, South Korea, and Saudi Arabia agreed to invest their money in the US. This meant that the developing countries were now making the US and other rich states dependent on them, which had not been the case. Other states that were affected were European states, such as Belarus, Iceland, Ukraine, Hungary. They started taking loans from the IMF, which they are still paying back. The British government was forced to make strong interventions, which resulted in the first full-amount public guarantees. Stronger European states such as Germany, Ireland, and Austria created unlimited guarantees on deposits, while central banks of major institutions (the Central Bank of the European Union) and states (Bank of England, FED), were cutting down their interest rates. (Černohorská et al., 2009)

Immediate Causes of the 2008 Crisis

With the historical perspective being presented, this part of the paper will break down the exact causes of the global financial crisis of 2008 through a short literature review. Balaam and Dillman, in their *Introduction to International Political Economy*, place five different reasons for the occurrence of the crisis:

1. Decades-long problem with balance-of-payments in the US;
2. The poorly regulated market in the US led to excessive debt and poor lending practices, particularly due to banks, mortgage companies, and similar, which happened due to the government's policies, in which the lenders were not able to fight the government, in essence;
3. Market liberalism was seen as a magical place in which markets regulate themselves, without calculations of market failure. Capitalism was seen as the best end goal, without flaws, without failure, without lessons from the past;
4. Individuals who acted irrationally, unethically, and even illegally, in which we can easily count the government as an agency;

5. Weak (it can be argued that it was not just weak, but totally inefficient and almost non-existent) global governance (Balaam & Dillman, 2014).

Jacopo Carmassi, Daniel Gros, and Stefano Micossi argue that there were three main ingredients of speculative bubbles:

1. The abundance of liquidity in the world capital markets, which created global imbalances, over the past three decades. The deficits that happened, occurred due to the savings of Asian states that wanted to create large reserves of money. US dollar, as the main currency, had the main role in governing the global liquidity, but was based on domestic goals, paying little to no attention to the international arena;
2. Credit boom which led to unsustainable leverage, a system in which lenders encouraged households to borrow more, without the calculations of will the money be paid back;
3. Financial innovation such as securitizations, that promised high returns with low risks (Carmassi et al., 2009).

These authors also emphasized that the debt-to-GDP ratio has been higher in states in the EU which belonged to the eurozone, than in the US. The financial sector also increased more here, which is why Europe was so fragile to this crisis, even though its origins were in the US.

Table 1: Debt-to-GDP Ratio (Carmassi, Gros, & Micossi, 2009)

	<i>a) Economy-wide</i>		<i>b) Non-financial corporate sector</i>	
	<i>EA</i>	<i>US</i>	<i>EA</i>	<i>US</i>
1999	3.51	2.66	0.67	0.46
2007	4.54	3.47	0.92	0.49
2008	4.73	3.46	0.97	0.49
Change 1999–2007	1.03	0.81	0.25	0.03
	<i>c) Financial sector</i>		<i>d) Households & small business</i>	
	<i>EA</i>	<i>US</i>	<i>EA</i>	<i>US</i>
1999	1.61	0.79	0.48	0.88
2007	2.32	1.17	0.61	1.28
2008	2.42	1.17	0.61	1.24
Change 1999–2007	0.71	0.38	0.13	0.4

Černohorská, Černohorský, and Teplý (2009) argue that six main players in the financial market needed to be identified as the ones that brought the financial crisis. They include:

1. Mortgage originators:
 - Lenders
 - Commercial banks
2. Risk shifters/transformers:
 - Commercial banks
 - Investment banks/prime brokers
 - Government-sponsored enterprises
 - SPVs (ABCP/SIV/conduits)
3. Investors:
4. Insurers:
 - Insurance companies
 - Monoline insurers
 - Reinsurance companies
5. Rescuers:
 - Central banks
 - Governmental institutions
 - Sovereign wealth funds
 - International Monetary Fund

- Commercial banks
 - Investment banks
 - Hedge Funds
 - Private investors
- Private investors
6. Others:
- Rating agencies
 - US government
 - Regulatory bodies

It seems that both globalization and unchecked capitalism failed us. As to the former, its initial intention to make a planet one big prosperous village did not fully materialize, primarily because two-thirds of the global population were left outside the processes of globalization. In other words, all the benefits, and we must be honest there are plenty of these, are off-limits to 4 billion people. “We live in a world that is simultaneously shrinking and expanding, growing closer and farther apart... National borders are increasingly irrelevant. And yet globalism is by no means triumphant. The tribalism of all kinds flourishes. Irredentism abounds” (Attali, 1991: 117). The world hasn’t become either completely prosperous or equal. “Because of the great increase in the traffic in culture, the large-scale transfer of meaning systems and symbolic forms, the world is increasingly becoming one not only in political and economic terms but in terms of its cultural construction as well; a global ecumene of persistent cultural interaction and exchange. This, however, is no egalitarian global village” (Hannerz, 1991: 107). The web of interconnectedness and the direction of the exchange has indeed been shaped by the most powerful actors, and in a manner that perpetuates power relations that work in their favor.

Although globalization affects every segment of our lives, it is most frequently used in the economic context. Anthony Giddens defines globalization as “the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa. This is a dialectical process because such local happenings may move in an obverse direction from the very distanced relations that shape them. Local transformation is as much a part of globalization as the lateral extension of social connections across time and space. (Giddens, 1990: 64).” Globalization moves rapidly, technological advancements and information and communication revolution has changed our lives from the root, the world has become more interconnected, but also more interdependent than ever, contacts between nations became extremely complex and diverse, people, ideas, capital, and goods move more freely than ever.

Globalization indeed increased prosperity to some, yet billions of people from all over the world remain in poverty. Not being able to keep up the pace of globalization they were simply left out. In addition, globalization set in motion processes that have resulted in jeopardizing identity, weakening institutions, threatening democracy, limiting states’ sovereignty, rising global influence of multinational corporations and domination of the Western culture, serious income inequality, and environmental degradation. Globalization has even become a conflict generator. All these processes, with special emphasis on economic ones, are very difficult to control. Finally, capitalism itself has been facing a serious crisis in this extremely competitive global environment which by stimulating technological innovations creates an environment of “big fish eats the small one” that finally leads to the destruction of competitive private companies, and even whole nations. What is needed is proper direction and regulation of the processes for the benefit of all (Lerche, 1998).

Crisis Effects and Prospects for the Future

The first effects of the world crisis were visible in the U.S. The companies had to start firing people because they were unable to pay them their salaries. In 2009, the unemployment rate grew to 9.9 percent, which was the highest unemployment rate since 1982, when it was 10.8 percent (Unemployment Rate, n.d.). Almost 50% of people lost their jobs, creating a shock effect on the economy. It took almost eight years for the unemployment rate to get back to the percentage it was before the crisis. The value of stocks on the market fell almost 78 percent and large mortgage companies started announcing bankruptcy. Real estate prices, valued at 13 trillion dollars, fell to 8,8 trillion in only two years, while the real value of the GDP fell 3.5 percent. It took two years for the GDP to start growing again.

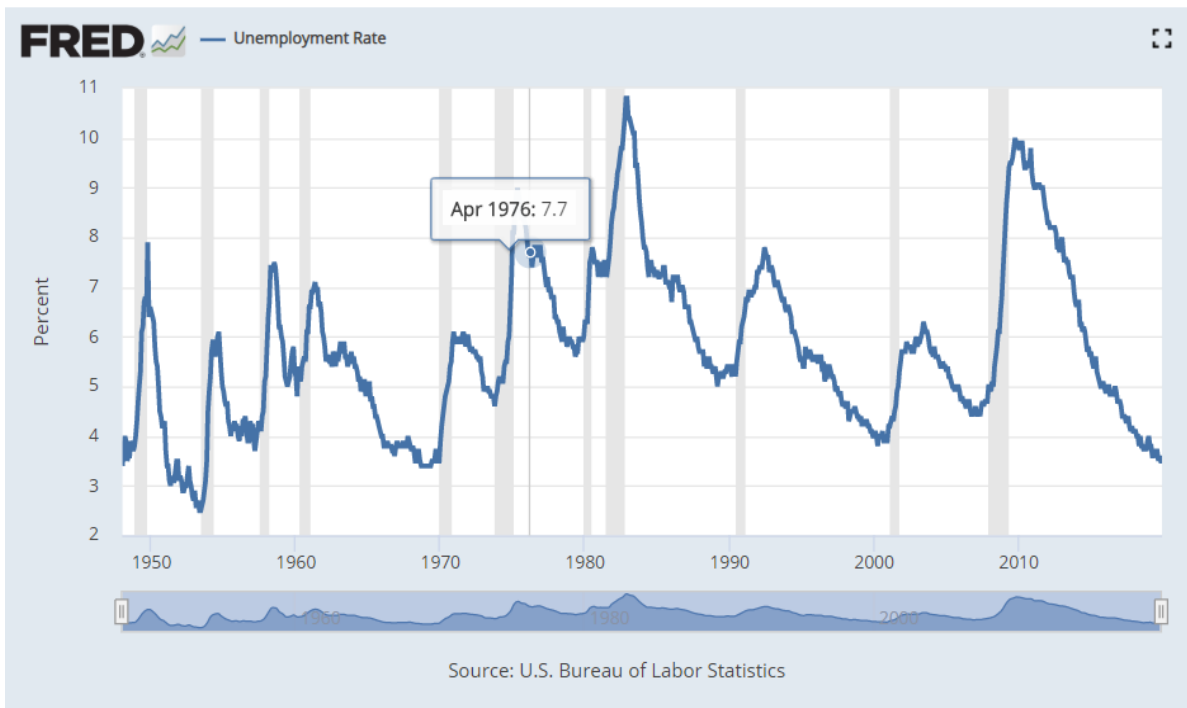


Figure 3: US Unemployment rate over the decades

However, the biggest mark that the crisis left on the US was the public debt rate. In 2007, the debt was 707 billion US dollars, while only five years later the number grew to 15,356 billion US dollars. The fall of consumption and production of goods and services also left a mark on the global market, meaning that the crisis spread from the economy to other sectors. Depreciation of the states in development was constant, while the number of debts rose, as well as the price of oil and gas (Mihaljević, 2016).

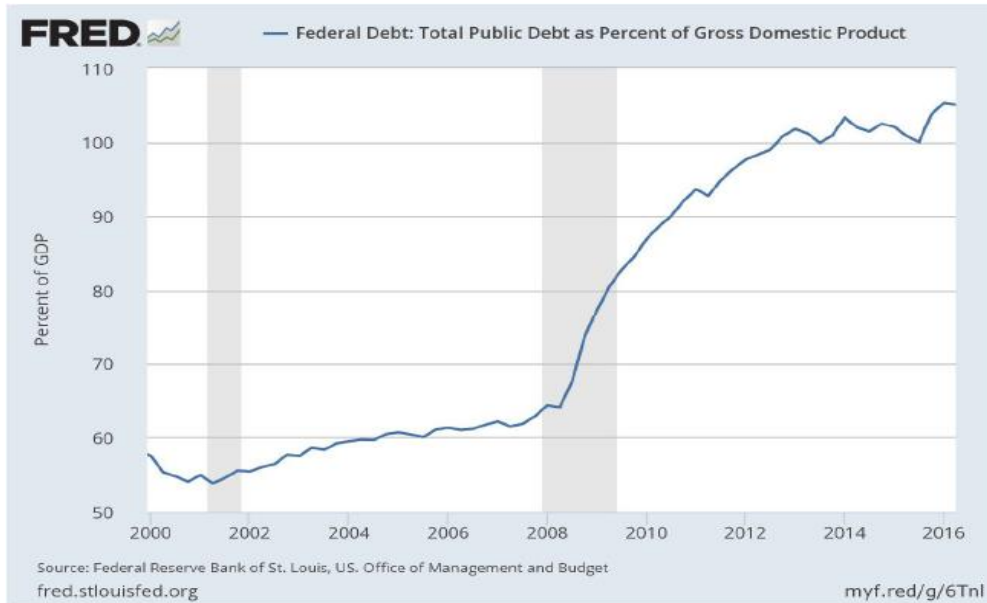


Figure 4: Federal Debt: Total Public debt as a percent of GDP (Mihaljević, 2016)

The crisis left a huge impact on the G7 states because the export demand from them was lowered, but also something we do not think about often, and that is tourism. Tourism is usually a sector that brings states a great profit, whereas, after the crisis, the number of tourists fell sharply. Usually, businesspeople also travel to different parts of the world, bringing home luxuries from developing nations and other expensive goods. However, with the crisis, neither did the business people have enough money to invest nor did families have enough money to go on holidays. Many small islands that have depended only on tourism because of their lack of resources fell into a deep recession (Naudé, 2009).

Migrant workers were also seriously influenced by the crisis. Many of them worked alone in foreign host states, sending money they earn, popularly known as remittances, to their families back home. But with the crisis, the number of remittances fell drastically, which also meant that families did not have enough money to spend or pay their bills in the countries from which the migrants came from, thus drastically influencing their economies. Of course, migrant workers are not the primary labor force of certain countries, but many of them do depend on work they find outside (an example is the Mexican labor force in the US) (Naudé, 2009).

Though it had serious consequences, the 2008 crisis was nowhere near as devastating as the 1929 crisis. Namely, during the Great Depression of 1929-1935, production level on a global scale decreased by a quarter, with the same increase of unemployment rate, compared to the overall production fall in 2008 that did not exceed 5% (Piketty, 2015: 506). On top of that, this cataclysmic state was followed by World War II. The main reason why the 2008 economic crisis did not result in major depression, but merely a recession, was the decisive intervention of states and their central banks, which prevented the collapse of the financial system by injecting money into it. This time, the choice was a wise and pragmatic monetary and financial policy of states contrary to the liquidation system of the late 1920s and early 1930s that resulted in the complete devastation of economies (Piketty, 2015).

However, even though the financial crisis has left the mark, it is important to reflect on the lessons learned, and hopefully, this time remembered. In their paper, Černohorská et al., 2009, differentiate between the negative and the positive lessons, which will now be discussed. The authors have divided the negative lessons into three major categories: financial products and valuation, processes and business models, and strategic issues. In the first category, the issues that stand out are adjustable-rate-mortgages, to which the public did not have enough

information about and has thus taken them; credit default swaps, which were unregulated, meaning that in the future there needs to be at least some kind of regulation; financial innovations again need sensitive regulations; and structure product valuation, whose risk nobody understood which taught the lesson that internal and external regulations now need to exist.

The second category specifies mortgage frauds. The lesson here is that there need to be better regulations of risk management processes, that investors need to have valuations of investments, that the supervision needs to be more constant, stronger, and include internal auditors, as well as other related measures. The final category includes the role of the government, which needs to be more careful, more thoughtful, capable of motivating managers and prepared to rescue public companies.

Yet, as mentioned, there are also positive lessons, smaller in number, but also important. Bigger companies and institutions from all over the world jumped in to help failing companies, thus it was not just the government that helped, but private actors as well. Central banks were able to provide liquidity to support private investors, and the IMF was also able to give out loans. Bankruptcy lawyers were helpful, and so were corporate advisors. Oil prices were low at least for a short amount of time, which helped the poor (however, not so much oil cartels), and powerful politicians were able to help with company nationalization. These different steps helped curb worldwide inflation.

Conclusion

Some economists believe that a new crisis is awaiting in 2020, which would yet again confirm that capitalism is doomed to have fluctuations. Though fluctuations are necessary, we need to take every possible measure to make these as less visible as possible. The neoliberal hegemony was over with the crisis; however, it does not mean that we have moved away from it. One of the headlines in the Balaam and Dillman book is called “We Are All Keynesians Now”. Keynes’s ideas were helpful during the crises in the 1930s, 1980s, and 2008, however, we only seem to go back to him once a crisis occurs. This is probably why a concrete ideology followed in the world of the economy is not possible. Ideologies are doomed to end, whether economic or political. Taking the best part of each economic scholar would be ideal. Due to this reason, it is appropriate to end with a discussion of the role of China in global economic flows.

China is a special and unique world phenomenon. In less than three decades, it has managed to position itself at the very top of the global economy, which has taken far longer for major Western powers to achieve, including the United States and the United Kingdom. The pace of economic growth in China is truly unprecedented (Zhao, 20014). Its economic opening began in the late 1970s after centuries of conflict wars and divisions that almost destroyed China's economy and society. Today, China is practically the production hub of the world (Eisenman, 2007). To sustain economic growth, China must provide sufficient energy, which is the bloodstream of the economy, and which has become China's primary foreign policy priority. On the other hand, a stable economy will ensure the peace and social and political stability of the country, as well as the legitimacy of the Communist Party. China is technically a communist country, albeit its economic system is an admixture of market economy and extensive state intervention.

When the crisis occurred, China was one of the biggest purchasers of American assets, which essentially helped it to get out of the crisis. At the beginning of the new century, China was already holding around 2 trillion US dollars in reserves that enabled the country to make huge investments (Oatley, 2004). Does this pose the question – did the liberal idea prevail and win with the end of the Cold War in the 1990s, or was the Soviet Union following an inadequate communist ideology? The question is even more important considering that American post-Cold War global hegemony has faded.

Given the fact that one of two pillars of American power – the petrodollar – is seriously challenged and jeopardized, first of all by the creation of emergency currencies in the aftermath of the crisis, then Saddam

Hussein's pricing his country's oil in euros, and finally, enormous military spending or military overstretch, which was started by the Bush Administration and continued during the Obama term. These developments have made it impossible for the U.S. dollar to remain the world's reserve currency. In other words, we are reaching the end of the dollar global standard. According to Thomas Piketty, a highly regarded French economist, "the 2008 crisis emerged as the first crisis of globalized patrimonial capitalism in the 21st century. It is unlikely that it is the last one" (Piketty, 2015: 507).

Can we, thus, say that state interventionism – the main feature of socialism and communism – and still largely implemented in China, is essential, able to produce greater wealth and more adequate living conditions for its citizens than liberal economic theories? Is, thus, as Fukuyama would suggest, liberalism the end of history, or is socialism able to compete with it? Maybe China is showing us a real example of market socialism, considering that none of the modern financial crises had an impact on it. Finally, while not rejecting the universal, civilizational, liberal values of the modern capitalist age, including democracy, free markets, private property, etc., it's about time that we thoughtfully, practically, and concretely address the serious shortcomings of the modern market economy. In other words, we should embark on the regulation of the free market economy, so that the same dark history would not repeat itself, making the whole planet once again the victim of unrestrained capitalism.

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