

Personal point of view on the topic of recent economic crisis

It is almost generally accepted that the recent economic crisis having started in 2008, has been caused by the cocktail of factors such as bad predictions, failure in determining levels of risk and hedging, all along with numerous conspiracy theories pointing the existence of some sort of interest groups that benefited from all that has happened. When I say "generally accepted", I am referring to the answers you would get from probably the most people if you would have been making a survey in the street. Myself, in order to simplify the complexity of these global economic earthquakes would probably fall into the same group, simply blaming the reckless bankers and lazy regulation.

Admittedly, after having some deeper insight in the genesis of development of certain trends in global economic relations, it seems to me that certain course of events or at least parts of it, was maybe inevitable. The global imbalances within the structure of the world economy, mostly referring to American deficit and Chinese surplus are the factors hardly handled. If American excessive investing during the 1990s' led to its internal imbalance comparing to domestic savings, while Chinese exports still keeps overtaking the imports by miles, couldn't it be viewed as natural order and a normal economic cycle?

Putting things in historical context as presented in the text by Carmen Reinhart „Eight hundred years of financial follies“, it is clearly explained that certain trends in international economic behaviour repeat. Even though today we are aware of certain repetitions and patterns concerning the course of events that has led the world economy to crisis through certain periods, the question of corrective measures is still hanging.

There is a lot of conflict of interests existing in terms that for example, China doesn't stop increasing its exports and building up currency reserve accounts, while U.S keeps consuming more than it produces. In case of U.S, it clearly indicates that will lead to selling assets, securities and treasuries in order to finance its imbalance, which again makes room for the foreign capital inflows at low rates. Of course, one of the key questions is how much of that capital ends up in deficit accounts and how much is transferred into another outflow. In an open and loose economy such as American is, is it and to which extent, possible to regulate? On the other hand, would higher prices of American assets with lower return offered to a global market solve the problem to a certain extent remains a question. That would probably give an impact to further lowering the interest rate, risking increase in real estate investing, but on the other hand, stimulating business investments.

On the other hand, Asian countries, hardly hit by their crisis in 1997-98 keep maintaining and building up their currency reserve accounts with the capital coming