Universitat
de les Illes Balears

DEA WP no. 77
Working Paper Series

A systemic crisis in the context of globalization: the Great Recession in the perspective of economic history, 1970-2008

Carles Manera
Universitat de les Illes Balears
E-mail: carles.manera@uib.es

April 2016

Departament
d'Economia
Aplicada

A systemic crisis in the context of globalization: the Great Recession in the perspective of economic history, 1970-2008[1]

Carles Manera

Universitat de les Illes Balears
(Balearic Islands-Spain)

Keywords

Great Recession, economic crises, globalization, American economy, Asian economy, European economy, economic history since 1945.

Abstract

The author argues in this work, the result of three years of research, that the Great Recession has the profile of a systemic crisis, in the sense that it is not only a single financial causes the trigger and at the same time, the crisis has questioned all the mechanisms of the system seemed to guarantee the impossibility of such severe as the crisis phenomenon since 2008. There are other factors to consider: crisis of accumulation, economic regulation and reduction of benefits, which point in this investigation and that, in turn, are the starting points for further work on the research agenda.

---

1. Introduction

The work presented has the objective to offer a different reading of the Great Recession. Faced with the most sectorial visions of the crisis (commercial, financial crisis, subprime) this research defends that this is a systemic crisis, from the moment the abundant existing capital has great difficulty in finding new investment niches and, thus, a new development. With this general approach, the study is organized in two main parts. The slight decline in the US and the relevance of emerging countries, with China at the head, and the contradictions that implies: first, the change that gradually, is occurring in the international economy is analyzed. In the second part of the study, it deepens turn on the contradictions between the real economy, productive, and financial, from the moment that the economy has been directed to a process of extensive financialization. The contribution concludes with a brief research agenda, in which the author is already working.

2. American decline?

"New" globalization, as opposed to "old" globalization (which economic historians place in the late 19th century, despite some people questioning this), is producing a plethora of literature aiming to explain, from different standpoints, how capitalism works at what is considered to be a time of readjustment (De Vries, 2009; Williamson, Bordo, and Taylor, 2006; Williamson and O'Rourke, 1999). Various slants have been looked at, with the most observant analysts seeing the emergence of possible new powers that will come to the fore very soon. This is the direction taken by the most recent academic works on the vast Asian region, which look at how production systems, education and cultural elements affect growth patterns. In short, these works predict that Asian countries will go on to dominate the global economy, leading to

---

[1] This work inserts in the project of research *Crisis industrial y recuperación productiva en la historia de España, 1686-2018*, HAR2015-64769-P, directed by Jordi Catalan. Dirección General de Investigación, Ministerio de Economía y Competitividad.

industry relocations and short-term crises (Towley and Benson, 2000; Rowley, Fitzgerald and Stewart, 2000).

There is also a mountain of literature on the economics of China, underlining the progress made by the ancient Cathay area over the last twenty years. This progress is occurring at vastly different speeds: crisis-ridden regions and sectors and archaic equipment coexist with dynamic regions and industries that are using modern technology. Although authors agree that official Chinese figures are unreliable, China is still growing much more quickly than other developing countries and has consistently been closing the gap to richer countries. The compound datum given shows that China has been ranked among the top three global exporters since 2000 thanks in part to its capacity to attract foreign capital and companies seeking to reduce their wage bill and environmental costs. In this new phase of globalization, dominated by business relocations and firm commitments to the latest technologies, the imposing Chinese colossus has become the "world's workshop", as Françoise Lemoine put it, a description that reminds us of the pioneering British industrial revolution (Lardy, 2002; Lemoine, 2003; Renard, 2002; Studwell, 2002).

In this context, it is interesting to consider the leading role to be played by America, which despite the restructuring of the global economy remains the world's biggest power. The more orthodox academic contributions emphasize the potentialities of American government policies, especially under Republican administrations, which deregulate the economy and financial system in a misconceived sense of the "invisible hand" of the markets. These authors overlook the massive deficits under the presidencies of Ronald Reagan and the two Bushes simply because they were not a result of benefits provided to those most in need or by government investment in health and education, but by lavish tax cuts for top earners – using the flawed Laffer curve as an alibi – and increased spending on the American military complex, with clear if indirect connections between political and economic power. Other academic authors, however, reject these arguments from an economic history and economics standpoint.

Robert Brenner has published game-changing research on the shift from feudalism to capitalism. The vastly experienced economic historian has come to blows with Neo-Smithian Marxism embodied first by Paul Sweezy then by Immanuel Wallerstein. He has also written an extraordinary book on 17th-century English tradesmen and has shed interesting light on the current crisis (Brenner, 2006). Brenner's approach is clear: the world economy has failed to overcome the long decline that began with the 1973 crisis, so for him the outlook is gloomy. Excess capacity in global industry is the main economic cause of the situation, and the eruption of new technologies made the situation worse. Business profitability, he argues, declined greatly (by around 20% between 1997 and the turn of the century in non-financial activities) because of over-investment that fed this huge speculative bubble in stock market movements. This process has been aided by the main economic institutions, particularly the Federal Reserve, which gave incorrect signals to the markets and has fed this disproportionate investment. This led to the collapse of some sectors of the economy, including telecommunications. According to Brenner, who cites other experts' contributions to theories on excess capital accumulation, these are the foundations of the current recession. This theory has been circulated at other times from historical, economic and sociological perspectives by Samir Amin, Hosea Jaffe and André Gunder Frank, who adapted the Kondratieff waves of technological change. More recently, Immanuel Wallerstein blamed the US's reduced capacity since the early 1970s on the rise of Japan and Europe and claimed we were witnessing the decline of American dominance. In an intelligent, well-documented work, the French historian Emmanuel Todd likened US expansion to that of Ancient Rome as the Empire began to crumble. He found new patterns in the fall of empires, including the massive cost of maintaining them and the drain on public finances. So according to Brenner, Wallerstein and Todd, we are witnessing a grave systemic crisis led by a weakened United States, which now has more consumers than producers and is seeing new protest movements within the country whose calls are quite different from those of the more conventional political left. This recession is bringing about a productive transformation that is redefining the "centre" and the "periphery", to use Wallerstein's terminology. Other countries are being called to the economic fore – not the military fore – of globalization (Brenner, 2002; Todd, 2003; Wallerstein and Arrighi, 1989).

The most direct source of the crisis began in 2000, resulting in a marked loss in profits. Excess production capacity drove down prices, bursting the first stock-market bubble, the dot-com bubble. The bubble was fuelled by deregulation of the financial markets and the search for investment funds by companies that were losing profitability. The situation was made possible by the disinformation provided by top executives, who were paid with stock options based on dwindling profits. In 2000, telecommunications, which accounted for 3% of US GDP, had a stock portfolio worth 2.7 trillion dollars, or 15% of non-financial corporations in the United States, but still needed funding. The amount of funding grew by 15% a year between 1996 and 2000.

This process led to more than 300,000 new jobs, resulting in economic patterns similar to those seen in other technology sectors, which had similar opportunities at obtaining cheap capitalization. The Nasdaq index shot up at an astonishing rate, higher than that achieved by the Dow Jones, thus inflating a bubble fed by links with the real economy: household debt and higher imports. We were thus seeing very strong knock-on effects: higher demand was aided by a strong dollar that encouraged purchases from abroad, notably high-tech components from Asia, especially Japan, and cars, machines and other products from Europe, benefiting Germany and Italy in particular. The more this model set in, the wider the trade deficit became, with the US buying more than it sold and spending more than it earned. The result: a clear deficit scenario caused by various related factors, so it would be short-sighted to act on only one of those elements, as the Federal Reserve did by cutting interest rates. The path towards the Great Recession of 2007-08 was being laid out.

Against this backdrop, the outbreak of corporate scandals was just the tip of an iceberg immersed in a sea of opacity. Over-investment in technology sectors generated by completely asymmetric information (on this point see Joseph Stiglitz's groundbreaking academic contributions: Stiglitz and Weiss, 1981; Akerlof, 1970) led to bankruptcies in the telecommunications sector and left more than half a million people jobless. Excess production capacity gave rise to excess supply that the market was unable to absorb. The data provided by Brenner say it all: annual growth in investment plummeted from 12.5% to 0.1% in 2000, then shrank by 5.2% in 2001 and 3% in 2002, while exports stagnated. Wider deficits, aggravated by less attractive US assets, put pressure on the dollar and weakened it against the euro. Foreign direct investment into the US fell by 60% in 2001, while purchases of American shares fell by more than 35% in the same year. Despite the weaker dollar, the trade balance didn't recover, with the Asian markets and Canada continuing to feed the consumer society in the US, while the European economy was contracting and beginning to experience bigger blows due to the drop in American demand.

Stiglitz complements Brenner's perspective, although he mounts a vehement defence of Clinton's economic policy, especially the big reduction in the pre-existing deficit and the tangible concern for social problems and environmental externalities. The latter led to heavy investment in updating facilities in the public and private sectors, a marked increase in productivity (Brenner also highlights this), new jobs and control of inflation. So despite the many points shared by Brenner and Stiglitz, the latter has a much less pessimistic view of how the American economy evolves. However, Jeff Madrick has said that, unlike in the past, this boom in the American economy was not accompanied by major productivity improvements. According to his data, growth averaged 2.85% for 1947-73 and 1% for 1973-2000, so it was much lower during the period in which production processes and services were being computerized. This has led some to believe that perhaps this is a technologically advanced era with a small-scale economy based on the skills, knowledge and ingenuity of workers and small-business owners, rather than on the strength of big companies and chains of distribution. As you will gather, this is a highly contentious issue. While there are signs that US productivity growth is accelerating thanks to what has been dubbed the "new economy", some authors such as Paul Krugman are sceptical, questioning the method used to calculate the productivity of the services sector, which is much more volatile than manufacturing.

Madrick's figures do not differ much from those of Manuel Castells, who is convinced that the world economy played a vital role in increasing productivity (Stiglitz, 2002, 2003; Madrick, 1998; Castells, 2000, 2004; Krugman, 2003). But despite these criticisms, Stiglitz

offers a mosaic of major indicators regarding Clinton's presidency, which summarizes a virtuous process: strong growth, without major price changes, control of the deficit and more employment. Unemployment was as low as 3.9% in 2000, without inflationary spikes, and according to Stiglitz this reduced poverty and dramatically reduced crime. Nevertheless, he is self-critical, saying that focusing the economy on finances, the deficit and inflation meant putting aside commitments to poorer parts of the population and to the environment. It is those commitments, according to Stiglitz, that distinguish Democratic Keynesianism from Republican Keynesianism, which throws all its investment into the military.

Nevertheless, despite the different interpretations in economics literature, there is a certain consensus regarding the causes of the crisis:

a) The irrational exuberance of the stock market bubble. Stiglitz puts it bluntly, saying that asset prices were completely independent of their underlying values. Billions of dollars were poured into profitless companies, which then requested additional funding by trading in the securities market. This was all made possible by creative accounting: basically falsifying accounting entries. Companies considered to be completely solvent were pilloried when this came to light. Economic agents and political leaders were left in a state of disbelief, distrust and panic. Consortia such as Enron, Global Crossing, Qwest, World.com, Merck, Xerox, and Vivendi, along with financial institutions such as JP Morgan Chase and Merrill Lynch and auditing firms belonging to the Arthur Andersen group, all took a knock, to varying degrees, because of the white-collar theft of some of their executives. The guilty executives advised buying still more shares in their companies so they could make further investments; but they did quite the opposite, selling assets to inflate their own bank balances in a way never seen before. As Charles Kindleberger has shown us, economic history is littered with cases that remind us of what has happened either side of the new millennium. But clearly few lessons have been learned (Kindleberger, 1985, 1986).

b) The Federal Reserve's misguided policy. Alan Greenspan is part of the unleashing of Wall Street. That was the conclusion shared by authors like Brenner, Stiglitz and Krugman. Bob Woodward, the famous journalist who wrote a panegyric praising former Reserve chairman Greenspan, talks of Greenspan's euphoria in front of the computer screens watching the variables fit together in a veritable "virtuous circle" – as the head of US monetary policy put it – that imbued the lower inflation, unemployment and deficit and the higher productivity. The Federal Reserve gave enormous importance to the financial markets, continuing in its fascination with bolstering stock prices despite clear signs of the growing deficit. Greenspan offered his unequivocal support for George W. Bush's tax cuts. This policy clearly benefited the most powerful sectors of society, making the bubble even fatter. There was vitriolic criticism of this strategy. The Chairman of the Federal Reserve became embroiled as an accomplice in crucial aspects of fiscal policy rather than acting more moderately and focusing more strictly on monetary policy.

c) The proliferation of asymmetric information. Brenner and Stiglitz conclude that the "invisible hand" referred to by Smith does not exist. Instead, they adopt a position similar to that developed by the Nobel laureate Kenneth Arrow in collaboration with Gérard Debreu, in that a series of conditions must be set for the market to be balanced and to work without outside interference (Arrow and Debreu, 1954). One of those requirements is for perfect information, which companies can then use to forecast how their goods and services, and therefore their factors of production, will evolve. Stiglitz has investigated what happens when these conditions are not met, i.e. when the information is imperfect and asymmetrical, when not everyone has the necessary data to make rational choices. He reaches a stark conclusion: that even in the most developed countries the markets function differently from what the perfect-market theories predict. In fact, the terrible decisions seen at the microeconomic level are the result of disinformation given by many people involved in finance, including, albeit to a lesser extent, the Federal Reserve. It is difficult to make correct decisions when the information is asymmetrical and the main guardians of economic orthodoxy steer clear of major commitments and get caught up in the speculative wave (Stiglitz and Weiss, 1981).

d) The government's negligible role in providing balance. The economic downturn is attributed to the lack of government action. The totemic view of a deregulated market has brought about

apathy in government in highly speculative areas. The most illustrative example was the cut in capital-gains tax in the US, a crucial issue that has showcased to the entire population how wealth can be generated quickly without tax constraints. In other words, those who make big profits on the stock markets end up paying less tax, which in turn encourages even bigger investment in stock-market assets, further inflating the bubble. Stiglitz argues that it would have been more beneficial to invest in education, infrastructure and R&D programmes to provide a more solid foundation for the improved productivity. This is a contentious issue, because the undeniable macroeconomic advances are distorted by the illusory phenomena of the stock market, which all economists are seduced by. It's a pity that Kindleberger's shadow was not cast more intensely on President Clinton's economic advisers. On this point, Stiglitz says principles were put to one side and skewed visions of reality were adopted, fuelled by the success of large macroeconomic aggregates. Two centuries of experience (economic history, again) of the problems caused by conflicts of interest and data that are neither homogeneous nor available to all economic stakeholders were disregarded.

e) The obsessions with deficits and inflation. Reducing the deficit does not always solve economic downturns in the short term, and can even harm growth. Authors such as Brenner, Stiglitz and Krugman believe government should give more slack when dealing with deficits – except trade deficits – in certain carefully selected areas, especially technology projects, education, infrastructure and R&D initiatives. In other words, they believe governments should stimulate an economy with a high added value. Higher debt would increase corporate assets, so reducing the deficit would reduce those assets and make the country poorer. The symbiosis between economic policy and fiscal strategy is obvious: if the yields on investment are higher than the low interest rates on government borrowing, taxes on the rest of the economy can be cut. If these premises were applied to European economies, we would have a very different roadmap before us. If governments' ability to borrow were severely limited in favour of an investment policy like the one described above, it would have a negative effect on any possible productivity gains. Furthermore, a monetary policy based on inflation is bad news in economies that have come dangerously close to having negative inflation, like America and certain European powers (Burkedin and Siklos, 2004). The Federal Reserve has acted with greater conviction to prevent this, acting resolutely to lower interest rates (although it acted less rationally towards the end of Greenspan's reign). The situation was different at the European Central Bank, which was dominated by over-rigid orthodoxy and unnuanced approaches, such as carefully monitoring price developments without considering the possible levers for economic growth. The economic "fat" that is gained when inflation rises above a certain level is not negative for economies that need sure-fire boosts to their jobs market and to education, technology and research.

Having looked at these causes, which on their own already suggest fairly clearly that there was oversaturation and too much volatility on the stock markets (although this is easy to see in hindsight, and much harder to spot when the process is starting out), we can now look at some essential indicators that highlight the imbalances that existed in the US:

- Office of Management and Budget figures for 2003 and 2004 showed fiscal deficits of more than $500 billion due to lower income and higher expenditure. This was caused by a "war budget" that promoted investment in security and defence and Bush's generous fiscal policy for those in the highest tax bracket.
- Department of Commerce data show that America's trade deficit increased, despite the dollar weakening against the euro. Changes in the country's trade structure provide an explanation: Canada and the EU were America's main markets in 1995, but from 2003 the Chinese market exploded, and a year later trade barriers with Canada and Mexico were lifted thanks to the North American Free Trade Agreement. In these new trade areas, the US dollar remained a benchmark currency, so its price against the euro had little relevance.
- Office of Management and Budget figures show there were almost three million job losses between 2003 and 2005, revealing how the US jobs market was being chipped away at just over three years before the 2008 crisis burst onto the scene.

In short, the existing imbalances – which I have tried to summarize – combined with a dwindling jobs market are the difficult contrasts that question the most solid American macroeconomic data while establishing the foundations for the Great Recession.

3. Finances and the real economy: the outbreak of the 2008 crisis

Shortly before the summer of 2007, nobody was talking about a global economic crisis. The data I have discussed above, which at the very least forewarned of a difficult economic situation, did not change people's perception of how the global economy would evolve. As in 1928 and a few months before October 1929, well-respected analysts, political experts, leading economists, consultancies, universities and politicians were stating categorically that the economy was healthy and the outlook was positive for the next few years. A plethora of literature has emerged on this topic, but some works deserve more attention than others, as many an opportunist has jumped on the economic prophecy bandwagon and claimed that he or she predicted everything, but hasn't told us where or when. We shouldn't pay much attention to these new gurus who, incredibly, are rather prominent in certain media.

Based on the above, we can deduce that the crisis could be detected in the crazy boom in technology stocks at the start of the new century, when dangerous seeds were being sown with the expansion of the derivatives markets and the over-permissiveness of the banks, which completely infected private debt and alarmingly threatened to transform it into government debt. But all of this comes from how we see things in hindsight, and not how we saw them at the time. It's easy to say now that the bull has already run through the china shop and created all the damage we're analysing. The economic slowdowns were not a major focus of concern for governments, but only for operators in close contact with the system for processing derivatives and their tempestuous inner workings, those who could see a bigger picture of what was happening and had the capacity to make the right decisions. Despite this, the government leaders who had accurate data on the financial situation unquestionably continued to trust in the very liberal axiom of giving the markets free rein to operate without any hindrance and to search for the optimal points and best fit between supply and demand. This is all very ideological, spurred on by a blind faith in deregulation that was flooding the fiat money markets without any real support.

In this respect, Michael Lewis believes two forms of conduct help explain the current banking crises: greed and incompetence (Lewis, 2010; Sorkin, 2009). There are many examples of both. It was greed that led banks to issue sub-prime mortgages – loans to borrowers who were quite likely not to be able to repay them. We must take two facts into consideration:

1. As long as house prices continued to rise, the property would cover the value of the loan. Originators didn't record loans on their balance sheets because they would sell the loans on to Wall Street investment banks. The investment banks would then turn the loans into collateralized debt obligations, or CDOs. CDOs are a type of security backed by an institution's assets – in this case, mortgages. All this would form a kind of pyramid-shaped gear system (CDOs have various grades and are grouped according to the level of risk), with the summit being what rating agencies rate as AAA. CDOs were a lucrative product for many financial institutions, because they offered higher yields than other investment opportunities.
2. These products, which were already viewed with suspicion by some quarters from a business point of view, needed some kind of guarantee. Because the system was so sophisticated, another product needed creating – the credit default swap, or CDS – to insure a certain amount of capital. It is the equivalent of taking out insurance against a default. But like any financial products, a CDS can be used to cover risks, but also to take them on – in other words, to speculate. CDSs also have a feature that distinguishes them from other insurance products: they can be sold to third parties. The resulting scenario seems flawless: a CDS is taken out as protection against banks that are laden with CDOs (which are overvalued). Operations equivalent to investment funds, which specialize in investing in CDOs (which were formed by sub-prime mortgages), were formed too. However, this whole mesh of derivatives, which formally are very solid and boost market confidence, have one thing in common, given the catastrophic end we have already discussed. They are all fuelled by greed, incompetence, and repeated harmful actions, affecting society by raining ruin and misery on many sectors of the

population. The only way to prevent these recurring crises is to step up government regulation of financial institutions.

But greed and incompetence were not the only causes of the crisis. They were accompanied by other factors, including speculation, over-indebtedness, new financial instruments that do not reduce risk, the dubious role of ratings agencies, the collapse of the control mechanisms imposed by financial market regulation, and ultimately, the lack of government intervention in these tumultuous circumstances. Government intervention is a crucial factor, and needs to be very different from how it was during the recessions that immediately preceded the current major crisis. Let's remind ourselves of what has happened:

a) In reaction to the dot-com bust in 2000 and the uncertainty caused by 9/11, the Federal Reserve's monetary policy was very lax. This led to falling interest rates, which in turn sparked additional residential property demand, greater household and company debt, and higher property prices. The actions and approaches adopted by the chairman of the Federal Reserve were clearly based on the belief that economic cycles had disappeared. This belief comes from poorly conceived philosophies such as the end-of-history theory, which lavishes praise on neo-liberal economics. The Federal Reserve's actions infected the whole system. The ideology of economics meant the defeat of a process of economic growth that seemed unstoppable.

b) The European Central Bank adopted a more moderate policy, but it was not enough to contain the speculative bubbles in countries like Spain and Ireland. The rise in interest rates in 2006 to cool the overheating economy pushed up mortgage prices just as oil prices had increased too. This had immediate consequences, with housing demand and prices dropping and arrears and defaults becoming more frequent. The economic picture was very different across Europe with big variations in the indicators (government debt, debt-to-GDP ratio, inflation, unemployment, growth prospects) and measures that were particularly harmful to countries on the periphery of the European Union, such as Spain, Portugal, Greece and Italy.

c) Governments began to intervene in financial institutions they considered too big to fail under any circumstances. This notion, excellently analysed by Gary Stern and Ron Feldman (Stern and Feldman, 2004), was first applied in 1985 to save the major American bank Continental Illinois, but has been repeated by government so many times that powerful banks have embarked upon high-risk investments knowing full well the government won't leave them in the lurch and will make taxpayers foot the bill. It is these government moves to bail out troubled financial institutions that turn private debt into public debt, and this affects the solvency of many developed countries. This is nothing new. As far back as 2005 there were already worrying signs that America's sovereign debt was too high, and Carmen Reinhart and Kenneth Rogoff said that in the coming years this would increase the debt of the worst affected countries by around 80% (Reinhard and Rogoff, 2009). One cannot neglect considering causes of the 2008 crisis from a more historical perspective. There were causes linked to crucial factors like industrial over-production and financial wealth, which reveal the excess savings in the world – liquidity that has no plausible route into the real economy and is therefore thrown into the financial markets. This idea is salient in the works of Brenner and Stiglitz, and ties in with perspectives of classical economics.

A deeper analysis of the situation reveals the following:

1. Over-production has brought about huge trade imbalances and financial dysfunctions. In the United States and Europe, higher industrial productivity led to excess stocks that were not met by demand. At the same time, Western companies were offshoring even bigger parts of their production processes to emerging countries like China and India. This strategy brought wages down in developed countries and pushed up total industrial production. There was also a substantial shift in the area of trade, with the increased production flooding the more developed markets (in Europe and the US), bringing down prices and pushing up unemployment. This is a powerful reminder of the similar explanations given for what sparked off the 1929 crisis, when over-production and low consumption determined the depth of the recession in the real economy.

2. In the finance sector, capital began to flow from emerging to developed countries for the first time ever. Starting in the 1990s, loans from emerging countries and innovations in financial products helped significantly increase consumption in developed countries, even over and above

their means. In developed countries, imports far outweighed exports, while current-account balances were plunging further and further into the red and balances of payments were becoming negative year after year (see Table 1 and Figure 1).

The data, which are for an important set of European countries, show Germany's economy powering forward while other economies are contracting. Germany's economic power is clearly manifest in its current-account balance as a percentage of GDP, which is positive for the periods 1971-78, 1982-90 and 2001-08. These figures, always positive, show the extent of Germany's export capacity and the strength of its services sector. It is important to note that when Germany adopted the euro it strengthened its position, sending the country's current-account balance to record levels while that of other countries fell below zero. The best example is France (the other European powerhouse): its balance had been positive from 1992 to 2004, but turned negative as the country became less competitive. The same happened in Italy, where the new industrial economy in the industrial districts boosted exports, giving the country positive balances between 1993 and 2000 before it joined the bulk of countries that repeatedly had negative balances. We can clearly, albeit superficially, see in these data the "two-speed economy" so often referred to by politicians and economists.[2]

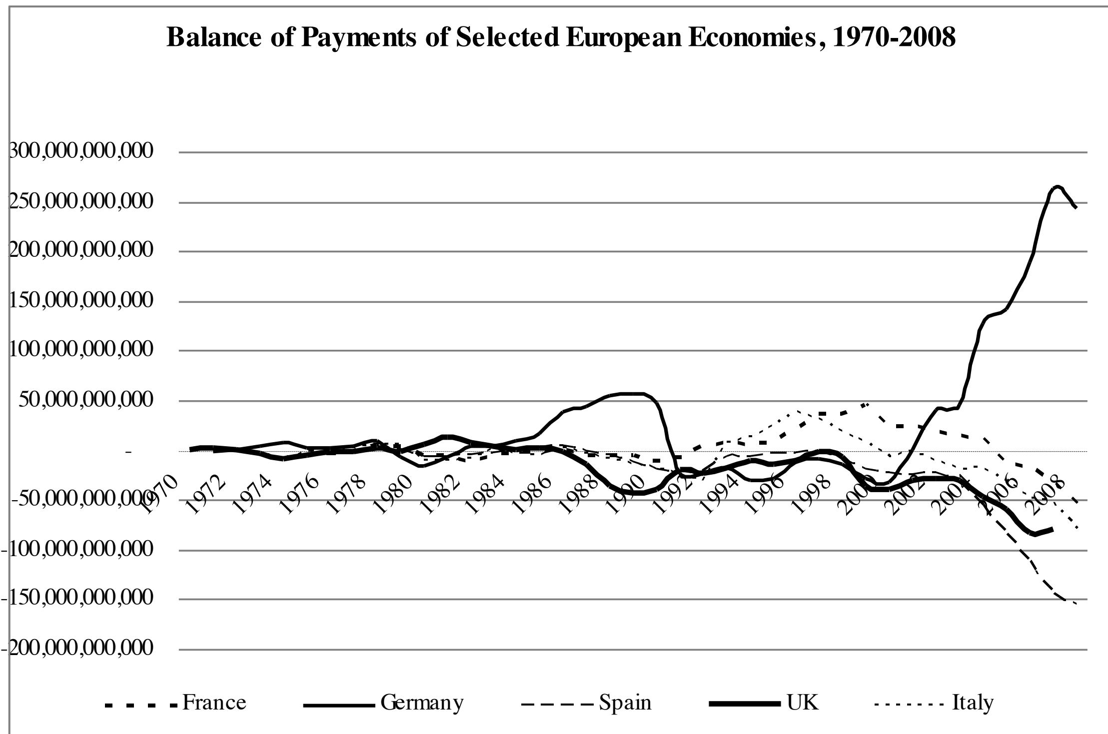
Year	Greece	France	Germany*	Portugal	Spain	UK	Italy	**Year**	Greece	France	Germany	Portugal	Spain	UK	Italy
1970						1.6	0.7	**1990**	-3.8	-0.8	2.8	-0.2	-3.5	-3.9	-1.5
1971			0			1.9	1.3	**1991**	-1.6	-0.5	-1.3	-0.8	-3.5	-1.8	-2
1972			0.1			0.3	1.4	**1992**	-1.9	0.3	-1	-0.2	-3.5	-2.2	-2.3
1973			1.1			-1.3	-1.7	**1993**	-0.7	0.7	-0.9	0.3	-1.1	-1.8	0.8
1974			2.1			-3.8	-4.3	**1994**	-0.1	0.5	-1.4	-2.3	-1.2	-1	1.3
1975		0.8	0.7	-4.1	-3.5	-1.5	-0.3	**1995**	-2.2	0.7	-1.1	-0.1	-0.3	-1.2	2.2
1976	-3.1	-0.9	0.7	-6.6	-4	-0.6	-1.3	**1996**	-3.3	1.3	-0.5	-4.2	-0.4	-0.9	3.2
1977	-3.1	-0.1	0.7	-4.7	-1.9	0.1	0.9	**1997**	-3.6	2.7	-0.4	-5.9	-0.1	-0.1	2.7
1978	-2.2	1.4	1.3	-2.1	0.8	0.7	2	**1998**		2.6	-0.6	-7.1	-1.2	-0.4	1.6
1979	-3.6	0.8	-0.6	-0.2	0.4	-0.2	1.6	**1999**	-5.4	3.1	-1.3	-8.5	-2.9	-2.4	0.7
1980	-4	-0.6	-1.7	-3.4	-2.5	1.3	-2.3	**2000**	-7.8	1.7	-1.7	-10.3	-4	-2.7	-0.5
1981	-4.8	-0.8	-0.7	-15.3	-2.7	2.8	-2.5	**2001**	-7.2	2	0	-9.9	-4	-2.1	-0.1
1982	-3.6	-2.1	0.7	-11.2	-2.4	1.6	-1.8	**2002**	-6.5	1.4	2	-8.1	-3.2	-1.8	-0.8
1983	-3.9	-0.9	0.6	-6.3	-1.8	1.1	0.2	**2003**	-6.6	0.8	1.9	-6.1	-3.5	-1.6	-1.3
1984	-4.6	-0.2	1.3	-2.6	1.1	0.4	-0.8	**2004**	-5.9	0.6	4.7	-7.6	-5.3	-2.1	-1
1985	-7.1	0	2.5	1.5	1.6	0.7	-0.9	**2005**	-7.4	-0.6	5.1	-9.5	-7.4	-2.6	-1.7
1986	-3.1	0.3	3.9	3.1	1.6	-0.2	0.4	**2006**	-11	-0.7	6.5	-10	-9	-3.5	-2.6
1987	-1.9	-0.5	3.6	0.9	-0.1	-1.8	-0.3	**2007**	-14.2	-1.2	7.9	-9.5	-10.1	-2.8	-2.4
1988	-1.3	-0.5	4	-2	-1	-4.2	-0.8	**2008**	-14.4	-1.9	6.7	-12.2	-9.6		-3.4
1989	-3.4	-0.5	4.3	0.3	-2.7	-5.1	-1.4								

Table 1: Current-account balances as percentages of GDP

SOURCE: The data are given in current dollars. Produced by the author based on figures from the IMF's Balance of Payments Statistics Yearbook and data files. See Appendix.
*Figures for 1990 and earlier are for West Germany.

[2] Max Otte, in his very blunt but precise style, argues that the eurozone needs somehow to be segmented. He says Greece, Ireland, Portugal and Spain should be separated, with their debt partially cancelled, and then their national currencies should be reintroduced so they can adopt their own economic policy with an unequivocal focus on currency devaluation strategies to make their economies more competitive (Otte, 2010).

Figure 1:



SOURCE: The data are given in current dollars. Produced by the author based on figures from the IMF's Balance of Payments Statistics Yearbook and data files. See Appendix.

The data in Figure 1 are even more powerful, because they refer to the full balance of payments, and they back up the observations made above: the curve for Germany rises way above all the others, while for France and Italy the curve begins to rise before falling away precisely when the single European currency is introduced. The German economy takes off at the end of the 1990s and begins to soar at the start of the new century. The other countries, meanwhile, despite some variations, lose capacity and economic strength. Together, these data suggest that monetary union made the German economy even more dominant, contrary to what Eurosceptics say. They also suggest that the way the changeover to the single currency was designed gave Berlin the opportunity to shape the ECB's monetary policy. Given this context, it is hard to explain why highly orthodox economists tout German losses in the big European consortium and completely ignore how Germany has profited from its involvement in creating the economic structure, an event that now seems long ago given the complex transformations the European economy has been through since the turn of the century.

3. There are imbalances in international trade. Structural deficits set in while the US Federal Reserve was introducing expansive fiscal policies. The markets were at saturation point for goods and liquidity, leading to bubbles in asset prices. Governments were so passive, so entrenched in a distorted idea of *laissez-faire*, that they almost led the American economy to ruin, with immediate consequences for European economies. Since 1992, the United States had been consolidating its growing public and private demands, while the Japanese economy was beginning to stagnate and the EU was adapting its macroeconomy to the criteria set by the Maastricht Treaty. Emerging countries, meanwhile, were taking different steps. First, they were building up dollar reserves to protect them against financial instabilities (which were emerging as a result of the rampant deregulation promoted by those running Wall Street, with the blessing of the Federal Reserve). And second, the main oil producers in the Middle East were reducing crude oil supplies to the bare minimum to prevent a fall in oil prices. Meanwhile, countries with a trade surplus (China and Germany) were enlarging their economic capacity in order to invest in areas with a trade deficit. Finally, new World Trade Organization regulations forced

emerging powers to introduce drastic changes to their exchange rates – mainly depreciations to continue helping exports to foreign markets. As exports grew, these countries were able to obtain new reserves, which they transferred to their aggregate savings, thus providing still more financial resources to the United States and other countries that were spending more than they could earn. This situation couldn't go on any longer, with the growth of the world's biggest economic power resting on a fragile foundation of cheap borrowing. The great paradox is that the world's last self-declared communist nation was and is providing the lion's share of the money borrowed by capitalism's superpower.
4. Financial panic erupted, driven by the opaque information and rumours regarding the reliability of derivatives, so the American, British and German governments came to the banks' rescue with huge cash injections that affected those countries' budgets. The central banks, meanwhile, cut interest rates, but this failed to make commercial banks, which were wary of each other's credit portfolios, open the credit taps. Stiglitz believes this had lethal consequences on the real economy: households were hurt by the drop in property prices; savings increased, driven by fear and uncertainty; credit became scarce, making the investment situation of businesses and families worse; and consequently, aggregate demand was blocked. The first quarter of 2008 thus saw the start of a poor economic cycle with very worrying results, including lower GDP and higher unemployment (Stiglitz, 2010).
5. According to reports published in early 2010 by reliable institutions, there was a high risk of the global economy entering recession towards the end of 2009. But experts still spoke of a positive outlook, albeit with certain poor indicators. The December 2009 edition of the *Consensus Forecast*, a monthly publication that pulls together the opinion of various institutions regarding the developments of the main economies, stressed how deviations from GDP growth forecasts for 2010 were, on average, 50% greater than normal. In several materials shows a summary of data for the main institutions, with major errors in the forecasts. All of them show major errors for all countries, but the errors are greater for Germany. So the situation was anything but normal. And the risks being detected were related to the need to standardize fiscal and monetary policies, which would be the key to spurring a recovery. The authorities needed the accuracy of a brain surgeon: acting too quickly could stifle the stimuli, and acting too abruptly could weaken the recovery.

The precedents in economic history could not be more frightening. If governments want to avoid making the same mistakes, the policies adopted by Japan in the 1990s provide a perfect guide as to what not to do (Tsuzu, 1996; Torrero, 2011). At the same time, drawing up a global plan for all countries presented a fundamental problem: not all countries' economies were in the same position, and there were major contextual differences between one country and another. A clear dilemma was presented to the Spanish finance ministry and treasury, and by extension to all governments: they could either pursue the policies labelled at that time as Keynesian, or return to more orthodox policies, dominated by specific aspects of economic monetarism. This was a clear reminder of the debate that took place in America between 1931 and 1933.

The response was a return to a more orthodox economic policy based on observations of the data from Germany. In Europe's leading economy, gross fixed capital formation had fallen by well over 5% between the start of 2008 and around March or April of 2009 and exports had dropped by 12%, but the stimulus policies enabled by the laxity regarding the government deficit limits (which Merkel raised from 3% to 6% of GDP) put the German figures back in the black. Then, starting in May 2009, and particularly the last quarter of that year, Germany saw a marked recovery in investment and exports, which caused a rethink into the cold fiscal stimulus strategy that had been planned and that would affect all of Europe.

At the same time, other EU countries were experiencing a similar recovery. The stimulus policies were clearly working, supporting investment and economic growth and helping reduce or ease unemployment. The only bad side was that they were pushing up government debts and deficits. These improvements were made despite dwindling private investment, prudence and caution in businesses, and a big upsurge in private savings, which was an unequivocal symptom of a drastic decline in consumer spending.

The financial crisis spread to markets that had invested heavily in American financial assets (Dungey, 2011; Kolb, 2011). This contamination between economies also had ideological

and methodological precedents. Those at the top of the Wall Street hierarchy, prestigious universities, the most ultra-liberal political leaders and the Federal Reserve successfully lobbied for deregulation, and this deregulation soon became part of Britain's and Germany's financial fabric. British and German banks had amassed large amounts of US mortgage bonds, which is why the fall of Lehman Brothers affected the main groups in the financial system, which then tried to sell stock market assets at a time when pressure to sell was increasing by the hour. The assets lost value on the stock markets, resulting in widespread defaults. The Ponzi effects spread like wildfire, as predicted years earlier by Hyman Minsky, an economist who was as unknown at that time as he was quoted ad nauseam in the weeks after the economic bubbles burst (Minsky, 2008).

State interventionism was the order of the day in economic policy, with a clear plan: to save the financial system, whatever the cost, and thus prevent a domino effect and a chain of defaults not just of banks but also insurance companies closely involved with CDOs and CDSs. Drastic measures have been taken to nationalize banks, such as in Britain, and masses of government money have been lavishly poured into banks by the US, Germany and France in astonishing events that have affected people's consciousness (the Keynesian "animal spirits"), as well as academic and political departments and experts around the world (Akerlof and Shiller, 2009). The situation, which people have come to believe is unprecedented, grossly shunning the lessons from economic history, casts doubt on ideals and premises that were thought to be untouchable: economic liberalism, the weight of civil society and the central doctrine of equilibrium in deregulated markets. There has even been some talk of re-engineering capitalism. Interest in Keynes has thus returned, and his old heated debates with Hayek, with their respective unwavering viewpoints, are being remembered again, although the initial, instinctive temptation is to follow the advice of Keynes. While Hayek blamed the 1929 crisis on inflation, caused by excess credit, which led to an unsustainable capital structure, Keynes believed it broke out because there was too little investment and demand was unable to match existing production. Robert Skidelsky draws a parallel between these postulates and the current crisis. He says Hayek's argument suggests the recession is due to lax monetary policy, which allowed banks to lend more money to businesses than the public could save on their current income. Therefore, "bad" investments were being financed by credit creation rather than by savings. This led to bubbles that fuelled a consumption boom, and when the whole thing collapsed the American economy slumped. The parallel with Keynes is that recession begins when profit expectations fall relative to the amount being saved. When that happens, businesses prefer liquidity over investment. The obvious consequences are higher interest rates precisely when they need to be lower. So the crisis was caused by lack of investment rather than too much debt; high debt was a consequence of the recession, not a cause (Skidelsky, 2009).

The Keynesian arguments were gaining weight all the time. For instance, in its *World Economic Outlook* the IMF warned governments they needed to intervene in their banking systems using taxpayers' money to neutralize the effects of damaged, toxic assets. The report urged governments to do everything they could to prevent a repeat of the 1930 collapse. In the IMF's most important reports (*Global Financial Stability Report* and *World Economic Outlook*), it directly and indirectly defended government intervention in economic activity through public-spending increases to offset the decline in aggregate demand. As we have said, we were witnessing, albeit fleetingly, the return of Keynes.

In this respect, there is one essential factor we must consider: that Germany has been one of the hardest-hit developed economies in the Great Recession, with GDP declining by more than 5%. In 2009, the German government reacted by cancelling the Stability and Growth Pact along with its EU partners and permitting eurozone countries to have a budget deficit of up to 6%, as we have already seen. But in 2010, when the global economy began to pick up and there was greater potential for German exports, Chancellor Merkel decided to return to the original Maastricht Treaty limit of 3%. Keynes had once again been expelled to the tomb of oblivion. The fiscal stimulus approach had been short-lived, and starting in May 2010 all governments began to adopt rigid economic conservatism in the form of rampant austerity programmes. Germany began to set its own terms, followed some way behind by France, forcing all countries to adopt tough austerity measures that are having terrible consequences for

society. Thus the German giant does not act as a leader of the European economy but rather it establishes a more "nationalist" view of the economic situation by prioritizing its own status. The country's position would perhaps not be so worthy of criticism if its influence were limited, or if its indicators were worrying. But Germany's economy is one devoid of over-indebtedness, with excess private savings and a strong current-account surplus. It would have been more reasonable for Germany to adopt a more expansive fiscal policy, but in no way comparable with that of other countries with much more worrying macroeconomic data, countries that are Germany's financial and commercial customers. These economic policies have resulted in a credit crunch and a decline in aggregate demand, and this has deepened the recession.

We have seen that it is very difficult to change economic policy in such circumstances, given the utter ideological domination of neo-liberalism and its advocates. For Antón Costas and Xosé Carlos Arias (2011), four factors contribute to this. First, there are the interests of the finance industry and the inertia of old ideas. Second, the crisis has not yet renewed interest in collective involvement in public affairs, so factors affecting individuals come before those affecting the public at large. Third, mistrust among more conservative quarters towards politics and the democratic state has pulled everything towards technocracy, towards an explosion of "professionals", such as in Italy and Greece, where executives, who despite their defects were democratically elected, have been replaced by unelected teams of technocrats from the circles of Goldman Sachs. And finally, there have been no political innovations – no progressive taxation measures – to help spread the wealth. The crossroads of the world economy is well lit, but politics is unable to negotiate it.

4. Direction for Future research

Future research will focus on deepening the aspects presented in this paper under specific guidelines:

1. The evolution of productivities of capital;

2. The prospect of profit rates;

3. The level of financialization of the economy.

These three indicators should be analyzed, along with its historical and economic context, in the long term, between 1940 and 2015, and the focus should be on: the United States and major economies of the European Union. This, therefore, will constitute our research agenda in the coming months.

References

AKERLOF, G.A., “The Market for ‘Lemons’: Quality Uncertainty and the Market Mechanism”, *Quarterly Journal of Economics*, 84/ 3 (Aug. 1970), 488-500.

—— and SHILLER, R.J., *Animal Spirits* (Princeton University Press,: Princeton, NJ, 2009).

—— DICKENS, W. and PERRY, G., “The Macroeconomics of Low Inflation”, *Brookings Papers on Economics Activity*, 1 (1996), 1-76.

ARROW, K.J. and DEBREU, G., “The Existence of an Equilibrium for a Competitive Economy”, *Econometrica*, 22 (1954), 265-90.

BLANCHARD O., DELL’ARICCIA G. and MAURO P., *Rethinking Macroeconomic Policy*, International Monetary Fund Staff Position Note, 12 February 2010, SPN/10/03.

BRENNER, R. *The Economics of Global Turbulence: The Advanced Capitalist Economies from Long Boom to Long Downturn, 1945-2005* (Verso: New York, 2006).

—— *The Boom and the Bubble: The US in the World Economy* (Verso: New York, 2002).

BURDEKIN, R.C.K. and SIKLOS, P.L., *Deflation: Current and Historical Perspectives* (Cambridge University Press: Cambridge, 2004).

CASTELLS, M., *The Rise of the Network Society*, 2nd edn., The Information Age: Economy, Society and Culture, i (Blackwell: Cambridge, MA, 2000).

—— *The Power of Identity*, 2nd edn., The Information Age: Economy, Society and Culture, ii (Blackwell: Cambridge, MA, 2004).

—— *End of Millenium*, 2nd edn., The Information Age: Economy, Society and Culture, iii (Blackwell: Cambridge, MA, 2000).

COSTAS, A. and ARIAS, X.C., *La torre de la arrogancia: Políticas y mercados después de la tormenta* (Ariel: Barcelona, 2011).

DUMÉNIL, G. and LÉVY, D., *Capital Resurgent: Roots of the Neoliberal Revolution* (Harvard University Press: Cambridge, Mass., 2007).

FRIEDEN, J.A., *Global Capitalism: Its Fall and Rise in the Twentieth Century* (W.W. Norton: New York, 2006).

HORIUCHI, A.: “A Bank Crisis in a Bank-Centered Financial System: The Japanese Experience since the 1990s”, working paper, Chuo University.

KALECKI, M., “A Macro-Dynamic Theory of Business Cycles”, *Econometrica*, 3 (1935), 327-44.

KINDLEBERGER, C.P., *Keynesianism versus Monetarism and Other Essays in Financial History* (HarperCollins: London, 1985).

—— *The World in Depression, 1929-1939*, rev. and enlarged edn. (University of California Press: Berkeley, Calif., 1986).

—— *Manias, Panics and Crashes*, 6th edn. (Palgrave Macmillan: Basingstoke, 2011).

KOLB, R.W. *(ed.)*, *Financial Contagion. The Viral Threat to the Wealth of Nations* (John Wiley & Sons: Hoboken, NJ, 2011).

KRUGMAN, P., “Stable Prices and Fast Growth: Just Say No”, *The Economist*, 31 August 1996.

—— *The Conscience of a Liberal* (W.W. Norton: New York, 2007).

KRUGMAN, P., *The Great Unraveling: Losing Our Way in the New Century* (W.W. Norton: New York, 2003).

—— *The Return of Depression Economics and the Crisis of 2008* (W.W. Norton: New York, 2009).

—— *The Accidental Theorist and Other Dispatches from the Dismal Science* (W.W. Norton: New York, 1999).

—— *Geography and Trade* (MIT Press: Cambridge, Mass., 1991).

LARDY, N., *Integrating China into the Global Economy* (Brookings Institution Press: Washington DC, 2002).

LEMOINE, F., *L'économie de la Chine* (La Découverte: Paris, 2003).

LEWIS, M., *The Big Short: Inside the Doomsday Machine* (W.W. Norton: New York, 2010).

MADRICK, J., "Computers: Waiting for the Revolution", *New York Review of Books*, 45/4 (1998), 29-33.

MAROTO, A. and CUADRADO, J.R., *Los cambios estructurales y el papel del sector Servicios en la productividad española*, Servilab, Universidad de Alcalá, document 8/2006.

—— —— "Is Services Growth an Obstacle to Productivity Growth? A Comparative Analysis", *Structural Change & Economic Dynamics*, 20/4 (2009), 254-65

MINSKY, H., *John Maynard Keynes* (McGraw-Hill: New York, 2008).

—— *Stabilizing an Unstable Economy* (McGraw-Hill: New York, 2008).

O'CONNOR, J., *Accumulation Crisis* (Basit Blackwell: Oxford, 1984).

OSTERHAMMLE, J. and PETERSSON, N., *Globalization: A Short History* (Princeton University Press: Princeton, NJ, 2005).

OTTE, M., *Stoppt das Euro-Desaster* (Ullstein Buchverlage: Berlin, 2010).

—— *Die Krise halt sich nicht an Regeln: 99 Fragen zur aktuellen Situation – und wie es weitergeht* (Econ: Berlin, 2010).

PÉREZ, C., *Technological Revolutions and Financial Capital: The Dynamics of Bubbles and Golden Ages* (Edward Elgar: Cheltenham, 2002).

RAJAN, R.G., *Fault Lines: How Hidden Fractures Still Threaten the World Economy* (Princeton University Press: Princeton, NJ, 2010).

REDDY, W.M., *The Rise of Market Culture: The Textile Trade and French Society, 1750-1900* (Cambridge University Press: Cambridge, 1987).

REICH, R.B., "The Great Recession, the Great Recessions and what's ahead", working paper, <http://www.irle.berkeley.edu/conference/2010/materials/reich.pdf>, accessed 17 Jul. 2012.

REINHART, C.M. and ROGOFF, K.S., *This Time Is Different: Eight Centuries of Financial Folly* (Princeton University Press: Princeton, NJ, 2009).

RENARD, M., *China and its Regions: Economic Growth and Reform in Chinese Provinces* (Cheltenham: Edward Elgar, 2002).

ROWLEY, C. and BENSON, J. *(eds.)*, *Globalization and Labour in the Asia Pacific Region* (Frank Cass Publishers: London, 2000).

—— FITZGERALD, R. and STEWART, P *(eds.)*, *Managed in Hong Kong: Adaptative Systems, Entrepeneurship and Human Resources* (Frank Cass: London, 2000).

SKIDELSKY, R., "The Boom was the Illusion", *New Statesman*, 13 October 2011, <http://www.newstatesman.com/economy/2011/10/world-growth-china-investment>, accessed 20 Jul. 2012.

—— *The Return of the Master* (Allen Lane: London, 2009).

SORKIN, A.R., *Too Big to Fail: The Inside Story of How Wall Street and Washington Fought to Save the Financial System* (Viking: New York, 2009).

STERN, G. and FELDMAN, R.J., *Too Big to Fail. The Hazards of Bank Bailouts* (Brookings Institution Press: Washington, 2004).

STIGLITZ, J., *Globalization and its Discontents* (W.W. Norton: New York, 2002).

—— *The Roaring Nineties: A New History of the World's Most Prosperous Decade* (W.W. Norton: New York, 2003).

—— *Freefall: America, Free Markets, and the Sinking of the World Economy* (W.W. Norton: New York, 2010).

—— and WEISS, A., "Credit Rationing in Markets with Imperfect Information", *American Economic Review*, 71/3 (1981) 393-410.

STUDWELL, J., *The China Dream: The Elusive Quest for the Greatest Untapped Market on Earth* (Profile Books: London, 2002).

TODD, E., *After the Empire: The Breakdown of the American Order* (Columbia University Press: New York, 2003).

TORRERO, A., "El final de la burbuja especulativa y la crisis econòmica de Japón", in *Observatorio de la Economía y la Sociedad del Japón*, 3 (2011).

—— *La crisis financiera internacional y sus efectos sobre la economía española* (Marcial Pons: Madrid, 2011).

TSUZU, S., *Japan's Capitalism: Creative Defeat and Beyond*, Canto edn. (Cambridge University Press: Cambridge, 1996).

DE VRIES, J., "The Limits of Globalization in the Early Modern World", *The Economic History Review*, 63/3 (2009), 710-733.

WALLERSTEIN, I.M., ARRIGHI, G and HOPKINS, T.K., *Antisystemic Movements* (Verso: London, 1989).

WILLIAMSON, J. and O'ROURKE, K., *Globalization and History: The Evolution of a Nineteenth-Century Atlantic Economy* (Cambridge University Press: Cambridge, 1999).

—— and PAMUK, S., *The Mediterranean Response to Globalization before 1950* (Routledge: London, 2000).

—— BORDO, M. and TAYLOR, A.M. *(eds.)*, *Globalization in Historical Perspective* (Chicago University Press: Chicago, 2006).

Appendix[3]

Balance sheets of European Countries

Source: Produced by the author based on figures from the IMF, the Balance of Payments Statistics Yearbook and data files.

BALANCES OF PAYMENT, in current dollars				
Year	Greece	France	Germany	Portugal
1970				
1971			106,579,705	
1972			339,737,168	
1973			4,180,846,806	
1974			9,084,950,154	
1975		2,740,359,182	3,097,445,200	- 754,701,920
1976	- 929,000,000	- 3,356,210,919	3,746,082,062	- 1,281,661,620
1977	- 1,075,000,000	- 405,105,192	3,904,679,948	- 956,582,941
1978	- 955,000,000	7,063,714,715	9,277,965,923	- 462,752,447
1979	- 1,886,000,000	5,141,501,556	- 5,386,663,051	- 54,044,740
1980	- 2,209,000,000	- 4,208,340,489	- 15,621,770,495	- 1,064,048,802
1981	- 2,408,000,000	- 4,810,818,972	- 5,262,989,556	- 4,685,750,197
1982	- 1,892,000,000	- 12,082,174,631	5,535,049,366	- 3,258,258,124
1983	- 1,878,000,000	- 5,165,512,057	4,369,530,681	- 1,632,320,059
1984	- 2,132,000,000	- 875,999,018	9,244,496,073	- 623,192,196
1985	- 3,276,000,000	- 34,597,949	18,021,247,582	379,982,443
1986	- 1,676,000,000	2,429,990,544	39,137,757,270	1,165,538,046
1987	- 1,223,000,000	- 4,445,832,867	44,842,484,737	435,179,064
1988	- 958,000,000	- 4,618,908,100	54,724,959,721	- 1,065,786,165
1989	- 2,561,000,000	- 4,671,010,644	58,032,116,511	152,947,803
1990	- 3,537,000,000	- 9,944,228,234	47,659,425,593	- 181,400,582
1991	- 1,573,700,000	- 6,518,255,442	- 23,050,434,208	- 716,355,679
1992	- 2,140,000,000	3,893,429,895	- 21,578,391,417	- 184,237,319
1993	- 747,000,000	8,989,785,411	- 17,561,326,736	232,902,408
1994	- 146,000,000	7,415,274,027	- 29,627,168,521	- 2,195,757,409
1995	- 2,864,000,000	10,840,336,631	- 27,896,962,356	- 131,802,964
1996	- 4,554,000,000	20,560,612,392	- 11,918,825,848	- 4,905,833,675
1997	- 4,860,000,000	37,801,148,627	- 7,817,184,898	- 6,631,659,444
1998	..	37,698,545,877	- 13,810,092,868	- 8,379,258,571
1999	- 7,294,900,000	45,864,577,901	- 27,044,393,180	- 10,285,396,825
2000	- 9,819,700,000	22,306,787,491	- 32,278,726,554	- 11,594,901,754
2001	- 9,399,930,000	26,191,114,784	400,895,396	- 11,445,352,438
2002	- 9,581,549,363	19,703,192,660	41,105,437,120	- 10,264,347,948
2003	- 12,803,507,982	14,756,539,021	46,952,122,508	- 9,593,469,756
2004	- 13,476,104,177	12,361,003,928	128,048,994,652	- 13,615,532,601
2005	- 18,233,177,668	- 13,564,561,504	142,809,916,197	- 17,618,556,295
2006	- 29,565,324,184	- 15,452,258,105	190,220,847,388	- 19,522,877,254
2007	- 44,587,287,339	- 31,248,853,784	263,056,306,419	- 21,178,626,257
2008	- 51,312,803,251	- 52,910,517,236	243,288,912,090	- 29,598,562,452

[3] The countries chosen are Greece, France, Germany, Portugal, Spain, Turkey, UK, Cyprus and Italy. We focused on the Mediterranean area (with disparate economies such as Greece, Italy, Spain and Cyprus where the services sector is important, especially tourism) and Europe's most powerful economies (Germany, France and the UK).

BALANCES OF PAYMENT, in current dollars					
Year	Spain	Turkey	UK	Cyprus	Italy
1970			1,970,398,426		816,480,159
1971			2,716,894,254		1,616,142,941
1972			533,353,863		1,983,940,511
1973			- 2,411,629,487		- 2,840,611,535
1974		- 561,000,000	- 7,448,453,414		- 8,275,200,237
1975	- 3,893,003,631	- 1,648,000,000	- 3,465,069,948		- 634,633,123
1976	- 4,622,445,702	- 2,029,000,000	- 1,380,238,420	- 26,553,263	- 2,848,635,145
1977	- 2,455,212,501	- 3,140,000,000	145,041,981	- 104,625,686	2,346,930,783
1978	1,250,840,555	- 1,265,000,000	2,163,486,630	- 185,000,461	6,053,755,847
1979	756,532,366	- 1,413,000,000	- 782,636,744	- 239,812,305	5,913,833,271
1980	- 5,579,999,645	- 3,408,000,000	6,861,992,455	- 258,319,117	- 10,587,453,110
1981	- 5,363,207,814	- 1,936,000,000	14,126,907,664	- 171,795,718	- 10,466,924,747
1982	- 4,548,243,516	- 952,000,000	7,984,708,625	- 178,171,041	- 7,379,556,532
1983	- 3,013,194,548	- 1,923,000,000	5,291,692,208	- 205,073,374	698,502,532
1984	1,777,600,860	- 1,439,000,000	1,833,423,998	- 221,623,273	- 3,190,274,849
1985	2,785,470,119	- 1,013,000,000	3,314,271,039	- 180,229,504	- 4,083,593,652
1986	3,914,233,943	- 1,465,000,000	- 1,323,753,957	- 18,913,695	2,462,347,812
1987	- 263,468,752	- 806,000,000	- 12,589,592,393	- 7,690,763	- 2,635,330,372
1988	- 3,795,489,190	1,596,000,000	- 35,326,156,228	- 107,580,150	- 7,180,586,717
1989	- 10,924,451,313	938,000,000	- 43,108,544,487	- 248,673,279	- 12,811,916,029
1990	- 18,009,410,032	- 2,625,000,000	- 38,810,922,317	- 154,339,881	- 16,478,681,122
1991	- 19,797,681,591	250,000,000	- 19,021,852,919	- 420,301,510	- 24,462,637,123
1992	- 21,537,215,135	- 974,000,000	- 23,204,209,131	- 638,195,761	- 29,216,527,371
1993	- 5,803,781,134	- 6,433,000,000	- 17,721,103,947	109,769,668	7,802,084,937
1994	- 6,389,349,436	2,631,000,000	- 10,025,834,772	74,361,376	13,209,233,397
1995	- 1,966,861,257	- 2,338,000,000	- 13,436,363,557	- 205,119,062	25,075,755,018
1996	- 2,233,973,439	- 2,437,000,000	- 10,328,612,316	- 467,713,357	39,999,035,650
1997	- 829,666,961	- 2,638,000,000	- 1,402,652,031	- 418,075,865	32,403,366,401
1998	- 7,251,485,438	2,000,000,000	- 5,272,998,683	291,417,462	19,997,905,328
1999	- 18,079,535,319	- 925,000,000	- 35,407,438,068	- 170,232,740	8,110,588,073
2000	- 23,185,116,516	- 9,920,000,000	- 38,800,261,343	- 488,055,775	- 5,781,140,956
2001	- 24,064,476,076	3,760,000,000	- 30,280,821,612	- 322,248,391	- 651,956,614
2002	- 22,239,359,223	- 626,000,000	- 27,858,154,620	- 379,165,886	- 9,369,083,272
2003	- 30,885,476,720	- 7,515,000,000	- 30,001,962,146	- 292,062,580	- 19,406,866,824
2004	- 54,865,376,329	- 14,431,000,000	- 45,935,989,275	- 826,757,519	- 16,455,822,080
2005	- 83,388,172,662	- 22,137,000,000	- 59,131,913,516	- 970,855,829	- 29,713,491,941
2006	- 110,874,319,727	- 31,893,000,000	- 83,077,458,845	- 1,279,359,110	- 48,045,249,209
2007	- 144,657,345,337	- 37,697,000,000	- 78,764,984,790	- 2,594,899,444	- 51,031,938,982
2008	- 154,184,077,768	- 41,685,000,000		- 4,478,697,549	- 78,029,207,840

TRADE AND SERVICES BALANCE, in current dollars				
Year	Greece	France	Germany	Portugal
1960	-1,158,046,208	454,148,000		239,254,256
1961	-1,281,431,168	-61,051,388		-570,667,392
1962	-1,413,259,136	-1,628,005,632		350,100,352
1963	-1,774,188,928	-4,114,796,544		36,531,752
1964	-2,283,214,336	-7,650,093,056		460,279,456
1965	-2,918,471,680	-4,421,229,568		588,319,808
1966	-2,203,807,488	-6,506,733,056		1,103,308,288
1967	-2,417,320,448	-7,481,494,016		1,694,960,128
1968	-2,988,902,912	-10,074,642,432		-331,789,056
1969	-3,477,271,296	-13,986,780,160		-680,429,888
1970	-3,492,300,000	-9,020,100,000	-13,988,500,000	-862,900,000
1971	-3,387,000,000	-7,689,000,000	-21,789,900,000	-1,309,300,000
1972	-3,482,900,000	-11,136,900,000	-23,609,600,000	-970,100,000
1973	-4,877,700,000	-15,599,500,000	-14,095,300,000	-1,859,000,000
1974	-3,122,300,000	-12,023,300,000	4,272,200,000	-3,876,000,000
1975	-2,563,400,000	-3,746,600,000	-12,051,500,000	-2,133,600,000
1976	-2,452,100,000	-14,552,900,000	-14,373,400,000	-2,434,100,000
1977	-3,028,100,000	-7,593,600,000	-14,264,100,000	-3,135,300,000
1978	-2,476,200,000	-5,268,600,000	-20,289,400,000	-2,507,900,000
1979	-1,783,600,000	-5,802,900,000	-31,602,600,000	-1,244,500,000
1980	-1,738,100,000	-8,949,500,000	-27,572,500,000	-1,814,700,000
1981	-1,586,300,000	-34,300,000	-4,117,200,000	-2,570,100,000
1982	-3,582,500,000	-6,759,700,000	6,605,900,000	-2,588,900,000
1983	-4,709,000,000	4,036,800,000	-1,129,200,000	-351,000,000
1984	-3,098,000,000	9,621,400,000	7,625,700,000	1,587,500,000
1985	-3,568,800,000	6,060,500,000	17,114,200,000	2,311,600,000
1986	-3,675,800,000	-5,282,100,000	4,930,100,000	1,259,600,000
1987	-3,174,800,000	-13,196,700,000	-5,753,500,000	-251,100,000
1988	-4,937,300,000	-14,806,700,000	-5,530,700,000	-1,953,300,000
1989	-6,804,400,000	-12,636,000,000	-895,400,000	-916,000,000
1990	-9,283,300,000	-14,988,500,000	926,900,000	-2,079,100,000
1991	-10,092,100,000	-8,669,000,000	1,485,600,000	-3,596,000,000
1992	-8,750,100,000	415,200,000	-13,055,300,000	-5,678,700,000
1993	-9,380,500,000	8,637,200,000	-13,266,300,000	-5,485,900,000
1994	-8,498,700,000	8,207,300,000	-15,253,000,000	-6,069,200,000
1995	-10,368,500,000	12,027,400,000	-16,947,100,000	-6,170,800,000
1996	-11,769,400,000	16,540,700,000	-6,308,700,000	-6,339,200,000
1997	-12,269,500,000	32,080,500,000	9,738,100,000	-8,004,600,000
1998	-14,357,100,000	24,827,500,000	2,758,200,000	-10,854,600,000
1999	-15,737,500,000	19,259,000,000	-11,936,900,000	-13,632,300,000
2000	-18,395,000,000	13,015,000,000	7,250,000,000	-13,315,000,000
2001	-16,303,900,000	14,676,000,000	43,204,300,000	-13,096,600,000
2002	-18,748,500,000	13,939,600,000	84,608,300,000	-12,201,900,000
2003	-22,258,400,000	4,097,900,000	66,960,400,000	-10,338,700,000
2004	-24,044,100,000	-8,916,200,000	93,807,900,000	-12,074,800,000
2005	-23,368,800,000	-21,776,500,000	103,855,100,000	-13,098,600,000
2006	-26,688,800,000	-26,332,200,000	127,479,700,000	-11,827,800,000
2007	-28,953,100,000	-39,246,400,000	164,087,800,000	-11,645,200,000

TRADE AND SERVICES BALANCE, in current dollars					
Year	Spain	Turkey	UK	Cyprus	Italy
1960	3,485,754,368		- 505,105,760		- 2,903,784,448
1961	2,629,628,416		1,127,089,280		- 3,070,749,952
1962	1,895,035,776		944,704,576		- 4,723,318,784
1963	661,861,632		1,275,159,808		- 10,420,702,208
1964	1,810,469,120		- 1,808,324,736		- 4,569,927,168
1965	- 490,907,008		- 281,441,248		1,463,273,088
1966	- 1,043,606,144		1,073,651,904		505,553,920
1967	- 1,195,589,376		- 2,089,915,904		- 2,297,189,376
1968	48,932,276		250,226,160		1,457,450,368
1969	21,620,834		4,004,705,792		- 2,439,944,704
1970	1,900,600,000		4,400,100,000		- 9,143,100,000
1971	4,757,900,000		5,688,500,000		- 6,491,000,000
1972	3,291,800,000		- 186,700,000		- 8,177,900,000
1973	2,014,500,000		626,600,000		- 11,761,800,000
1974	- 525,100,000		5,752,500,000		- 8,823,400,000
1975	- 372,200,000		8,612,400,000	- 111,200,000	6,164,500,000
1976	- 1,828,700,000		12,464,800,000	- 112,300,000	5,580,900,000
1977	3,739,700,000		17,346,900,000	- 157,700,000	14,645,900,000
1978	7,777,100,000		16,074,000,000	- 164,800,000	20,870,600,000
1979	6,427,400,000		11,603,100,000	- 178,300,032	18,289,700,000
1980	6,256,300,000		14,529,100,000	- 167,000,032	1,113,800,000
1981	12,236,300,000		16,261,500,000	- 116,000,000	10,257,500,000
1982	13,134,400,000		12,780,400,000	- 157,400,000	8,650,700,000
1983	18,267,800,000		8,531,700,000	- 150,500,032	17,049,400,000
1984	25,196,300,000		5,835,800,000	- 183,200,000	12,528,200,000
1985	22,963,100,000		9,930,400,000	- 149,600,000	12,074,200,000
1986	16,655,700,000		7,442,800,000	- 66,299,968	7,407,500,000
1987	8,944,800,000	147,304,866	5,735,300,000	- 79,399,936	- 3,469,300,000
1988	2,555,800,000	1,270,859,498	- 9,927,200,000	- 87,500,032	- 4,872,700,000
1989	- 7,782,900,000	941,036,813	- 14,612,000,000	- 136,099,968	- 5,325,500,000
1990	- 11,844,500,000	- 491,364,471	- 7,714,600,000	- 133,600,000	- 10,734,400,000
1991	- 14,544,300,000	39,379,752	- 765,200,000	- 255,399,936	- 19,165,200,000
1992	- 15,012,100,000	48,995,434	- 4,406,300,000	- 287,600,000	- 20,718,400,000
1993	- 3,532,000,000	- 1,864,977,714	- 2,791,600,000	- 39,900,032	21,831,100,000
1994	677,600,000	1,285,834,887	2,615,000,000	- 29,500,032	27,469,000,000
1995	- 967,300,000	- 175,247,444	9,675,100,000		37,294,200,000
1996	627,200,000	- 79,086,504	8,795,900,000		42,385,500,000
1997	2,848,500,000	- 468,971,535	6,394,700,000		35,045,100,000
1998	- 6,490,900,000	812,472,000	- 7,455,900,000		18,844,700,000
1999	- 16,918,000,000	- 261,040,000	- 17,956,900,000		4,503,600,000
2000	- 19,714,000,000	- 1,089,723,000	- 19,361,000,000		11,140,000,000
2001	- 21,209,000,000	3,632,373,000	- 25,209,600,000		14,087,900,000
2002	- 25,398,900,000	2,135,507,000	- 36,890,000,000		3,906,100,000
2003	- 31,945,400,000	- 235,508,000	- 38,390,000,000		- 6,338,300,000
2004	- 46,016,200,000	- 2,066,764,000	- 45,910,200,000		- 4,410,100,000
2005	- 60,315,500,000	- 3,194,635,000	- 46,075,900,000		- 8,227,300,000
2006	- 72,074,200,000	- 3,468,337,000	- 47,653,500,000		- 7,751,000,000
2007	- 79,784,100,000	- 4,657,877,000	- 54,548,900,000		- 5,921,900,000