

The Systemic Crisis of Financial Capitalism and the Uncertainty of Change¹

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Introduction

At the time this essay is being written, January/February 2009, the systemic crisis of capitalism, which began in 2007/2008, seems to be pointing toward the temporary nationalization of the banking system, particularly in the United States and England, even as its macroeconomics of incomes and jobs darkens in various countries. Overall, this confirms that, among other reasons, the crisis arose from the extreme exacerbation of the free-market, conservative developmental paradigm put into place in the early 1970s. As the crisis unfolds, government is getting ready for the biggest intervention in the history of capitalism, clearly revealing the dimensions of the State vis-à-vis macroeconomic of financial wealth. In other words, we are seeing a State in which the Central Bank and the Treasury spare no effort to defend and sustain the wealth from high finance. At the same time, we also see a clamor demanding the redefinition of the relationship between the State and the economy, and that society and the State control the economy, not the other way around.

What is happening in this crisis befits the nature of capital and unregulated capitalism. Unlike what some leading commentators might have detected, this is not a deformity or a deviation from the essence of the accumulation process – whether of productive accumulation, of its articulation with financial accumulation or of rendering the latter autonomous. It's interesting that part of the leftist critique insists on the “productivism” of the “market system”, something inherently unattainable by pure market logic. Capitalism is now increasingly looking more like itself. Economic and political determining factors have contributed to this. The period that began in 1970, characterized as “financialized capitalism” (Braga, 2000b) – or financially dominated capitalism or “finance-led capitalism” (Guttmann & Plihon, 2008) – has now lasted more than 38 years. In this capitalism, as we shall see, financial wealth supersedes productive wealth without hindering it, and expands at greater and greater speeds producing structural economic and financial instability.

Very well, then. This period has already lasted longer than the famous 30 glorious years of the golden age of capitalism after World War II.

The dynamics of the rise and fall of real estate prices, which is at the origin of the current crisis, has made clear the extent of financial globalization and the intense financialization of economies everywhere.

Will proposed and roughcast regulation be able to deal with the problems? Will they be able to change the systemic pattern of wealth of the last 38 years?

Do the necessary changes have the backing of high-level politicians who are up to the task, of proper and well-equipped political parties and legislative bodies, and of active social movements capable of “pushing” in the proper direction?

Financial Wealth and the Capitalist State² after the Lessons of 1929

Present events have been fermenting for decades, so the following will help us to understand what is now (2007/2009) going on.

In bull times, only the market exists; in bearish times, everybody cries out for the State. And we are not referring only to that old safeguard, the Central Bank as lender of last resort: we will examine the unspoken maxim that guides a kind of division of labor between the public and private sectors in governing our present-day free-market, unregulated or non-regulated capitalist economies. When the production economy (income and jobs) goes well and is followed by an increase in asset prices (stocks, real estate etc.), the job of the State is simply not to meddle (*sic!*). When the wealth begins to lose its value and economic crises arise, the State is called upon by the so-called markets to take adequate measures and avoid “the worst”: the depreciation of private holdings.

The chairman of the Federal Reserve (Fed), the American Central Bank, declared in 1999/2000 that interest rates would be reduced if there were signs that the economy was moving toward a “hard landing” – a pearl of nomenclature that won the media’s heart. What Mr. Alan Greenspan said, in other words, was that monetary policy would remain expansive, providing the necessary liquidity to avoid a critical cessation of American prolonged economic growth.

J. K. Galbraith was deliciously ironical when made mention of the official names people used to refer to capitalist instability. Over the last century or so, words have been losing substance and meaning: panic, crisis, depression, recession, readjustment. The current nomenclature resorts to commercial aviation and insists on soft landings and hard landings. This is curious, because facetious pilots like to say that a successful flight is one with both a take-off and a landing, since the former is optional but the latter is compulsory. A capitalist flight, therefore, to use the now fashionable metaphor, is always successful – at most, there are different degrees of comfort or discomfort in the landing that precedes a subsequent take-off. The events of 2008/2009 have clearly lain to rest these attenuating names by exposing the world to the multiple faces of the systemic crisis of globalized, finance-dominated capitalism.

It was implied that the government would always be there to ensure the continuity of the “irrational exuberance” denounced even by the American conductor of globalized, dollarized financial accumulation. In other words, “systemic risk” would always be bypassed and numerous speculative positions would eventually be sanctioned – and only those who exaggerated their Ponzi schemes would fall in disgrace.³ For this reason, to the surprise of many at the time, markets all around the world grew by leaps and bounds soon after these “assurances” of prompt government intervention, revealing the autonomous nature of financial wealth. The State that issues the world’s “dominant” currency enters the stage as a guarantor of last resort to increase asset prices, which are repeatedly setback by instability and market-induced crises. To be sure, this does not always ensure that “systemic risk” can be avoided, but implies that government efforts will “interminably” help the financial wealth market. One might say that, as paradoxical as it may seem, the golden rule of liberal capitalist globalization is: the State will always rescue markets where securities are not only traded speculatively – speculation is a given in this system – but also *disruptive of the market rules themselves!*

Superspeculation took hold in other countries and other times before the current “explosion”. In the 1990s, after the speculative peak of the stock exchange and real estate market, numerous expansionist monetary and fiscal steps were taken in Japan to prevent the stagnation of GDP from becoming a crisis. One might ask how ruinous the Japanese hard landing would have been without these interventions. The Nikkei index tumbled from 45,000 to 15,000 between 1989 and 1992 and, if left to the market, the adjustment of such immense devaluation would have led the Japanese economy into a great depression. The American stock exchanges (or any other, for that matter) had never seen such a violent fall before.

In 1997, in attempting to control the crisis, the South Korean government even resorted to bank nationalization simply to avoid a disruptive chain reaction of insolvency. (The government later had difficulty reselling the banks to private capital.) In addition, public resources were injected into other banks facing difficulties. *The Economist* (6/2/2002) reported that the Korean government spent approximately \$88 billion rescuing the banks.

The fiscal cost of the crises between 1977 and 1995 is impressive. It is estimated Japan spent 20% of GDP after 1992 to counter the stagflation caused by wealth devaluation after the speculative excesses in real estate and stocks. Norway spent 8% of GDP between 1987 and 1993; Spain 5.6% between 1977 and 1985; Sweden 4% in 1991; and the United States 3.2% of GDP between 1981 and 1991.⁴

If a nation could not autonomously rescue its financial or currency exchange systems, multilateral agencies were called upon, such as the International Monetary Fund (IMF) and the World Bank, and imposed their well-known conditions. In the case of Argentina, these conditions meant a very

steep social and economic cost to revive the “currency board” system, because they required the “dollarization” of public and private debt and an even greater relinquishing of sovereignty. The tourniquet applied to public finances prevented the various levels of government from eventually adopting a development agenda. On the other hand, however, if cast to the autonomous interplay of market forces, the Argentinean monetary system would have already been destroyed by the foreign exchange crisis.

These international economic policy designs to control crises revealed a special double-sided trait of this liberalism coetaneous with globalization: first, unrestricted freedom for markets and capital to produce and realize wealth the world over; second, in times of crisis, when this wealth is depreciated, free rein to government agencies –the Central Bank and the National Treasury – to defend and protect private holdings, even at the cost of undesired monetary expansion, fiscal burden, high unemployment, yielding of decision-making power to international agencies. In times of euphoria, the market is king; when things shrivel up, State measures are called for.

From the 19th century to the Great Depression of the 1930s, asset price devaluation has had deep effects on private holdings, with the generalized failure of banking, industrial and commercial establishments. But a new phase of growth then began, led by new entrepreneurs and by those that managed to survive the wild competition of harder times. After the catastrophe of the 1930s, it became clear that similar events might be avoided with Big Bank (Central Bank) and Big Government interventions – and, indeed, major crises were avoided, recessions were controlled and kept from becoming depressions, and unemployment fell. The cost, however, were inflationary tensions, created especially by the profit margins of the oligopolies, which they preserved as a compensation for times of apathetic economic activity.

What is new in today’s economic liberalism is that crises are managed with the specific purpose of defending private holdings, an attitude that connives and abets speculation and fictitious financial wealth.

If Big Government, in a sense, left the scene after some economically liberating reforms, the opposite happened to Big Bank. During the period immediately prior to the current systemic crisis, beginning in 2007, production-oriented, infrastructure-creating, fiscally countercyclical and anti-unemployment spending by government ceased, relatively speaking. But the central banks and multilateral institutions, kept by public money, remain permanently present to assure an interminable increase in private wealth appreciation.

In this process, discussing the moral hazard⁵ of the rescue operations of Central Banks is somewhat hypocritical, seeing that in the current situation they cannot do otherwise. The Central Banks and the Treasuries have become hostage to the marketplace and will remain so while the system’s patterns of wealth do not change. Aware of this, private decision-makers plunge voraciously into speculative gain – and, abetted by the premise of being *too big to fail*, the overwhelming

majority is successful (they can, furthermore, count on the government to rescue the markets if all else fails). Microeconomic risk, being a private matter, obviously does not disappear; “systemic risk”, on the other hand, is deemed by the wealthy a matter of great public importance – the ups and downs of most of the population are of only marginal concern and, at most, some programs to provide minimum income, unemployment insurance and social assistance will be created for those victimized by the doldrums in economic activity.

However, as we have stressed, it is not merely a matter of the lender of last resort protecting the illiquid but not the insolvent, as Bagehot proposed more than a century ago. It is much more than this: at the zenith of neoliberalism, the State becomes the guarantor, the co-regulator, the orchestrator of the macroeconomic financial wealth through the public/private financial macrostructure.⁶ Earlier, the State ensured productive profits by co-galvanizing effective demand. Now, with its fiscal powers shackled and ejected from this role, government finances, fiscal management and monetary management become fundamental elements in the reproduction of the macroeconomics of financial wealth. This is not minimal State; it is maximal State taking active part in the reproduction of abstract financial wealth. It is a radically non-conservative practice, to be sure. One would have thought that, sooner or later, this “economic liberalism by the elites for the elites” would become unsustainable, seeing that its iron laws apply only to the have-nots, to the “misgoverned” peripheries of the system, whereas individuals, companies and countries of the “elite” can count on the unproductive State to guarantee and oversee the reproduction of wealth.

Of late, the State (i.e., the minimal State, where the conservative policies of economic liberalism reign) has been concerning itself less and less with the macroeconomics of employment and income, and more and more with the macroeconomics of financial wealth (thus becoming the maximal, intervening State).

Big Bank after the Onset of the Crisis in 2007⁷

As the American real estate crisis irrupted and as it became clear that it would infect the banking and financial systems of important countries, many were asking by mid-2007 what the Central Banks might do.

The European Central Bank was the first to make an unequivocal statement – followed, after some drawbacks, by the American and English. Big Bank has the intrinsic role of rescuing financial capitalism at the crossroads, when financial capitalism gives signs of being incapable of dealing with the global instabilities it creates. Liquidity is provided, various support mechanisms are created, interest rates are slashed etc. Big Bank becomes not a mere lender of last resort, but also a *market maker* of last resort – that is, a purchaser of debt from private agents in desperate need of liquidity when no other buyer can be found in the marketplace. And how do they become liquid? By exchanging the toxic bonds they hold for public bonds, which they can then readily convert to cash.

That is why the three decisions made at the time, the latter half of 2007, were coherent and understandable – even if two of them were preceded by doubts, polemics and more condemnation. The matter continued to inflame arguments and interests. In Europe, the press reported the appearance of new financial bubbles in emerging countries, supposedly caused by the adopted measures.

The truth is that whoever is in “command” at the relevant Central Banks will be forced to take measures to halt the increasing depreciation of financial wealth and prevent the paper wealth accumulated during the “financial boom” from going to dust.

Without today’s high finance it is impossible to understand the meaning of modern financial capitalism. High finance is created by the bursaries or finance department of the productive corporations themselves. And therein lies an important novelty of globalization, because for these corporations, financial gains (i.e., the increasing value of their financial assets) are a goal in themselves. Their interests match those of the banks and other monetary organizations, as well as those of the large financial creditors, forging the hard core of modern financial capitalism: high finance.

Since the catastrophe of the 1930s, which began with the crash of the New York Stock Exchange in 1929, high finance and governments learned how to make Big Bank, however recalcitrant, follow the “right path”.

Prior to their decisions to salvage the system, everything that was spoken and written on the style of the Central Banks’ chairmen, the analyses of their speeches, the hollow words about moral hazard merely helped to cloud the issue and confound those who have yet to understand what financial capitalism is all about.

The current real estate crisis in America, among all post-World War II financial crises, was arguably the one most foretold. The surprise was not that it occurred, but the extent to which it penetrated national financial systems and affected the most eminent financial players, and the insinuating and insidious nature of the financial innovations. (Not to mention the wholesale omission of the monetary, regulatory and overseeing authorities.)

As we now know, mortgages brokered by US institutions were resold to financiers in investment funds, pension funds and hedge funds, collateralized by the mortgage installments themselves – and, ultimately, by the value of the underlying real estate. Housing prices began to rise considerably as the speculative scenario was being set up. A perverse “innovation” took place when similar operations began to take place with mortgages from “high risk” takers – the “subprime borrowers”.

From then on, the miasma of financial “innovation” spread around the world, under the auspices of big name market players. A global turbulence ensued. Initially, these loans were regrouped into mortgage-backed securities, which enjoyed a highly liquid and dynamic secondary market in the United States. Next, the mortgage-backed securities were further grouped with other bonds (credit card debt, auto rentals, corporate accounts receivable etc.) and rearranged

with other collateralized mortgage bonds. In yet another innovative financial operation, these new end-products were dubbed “collateralized debt obligations securities” – i.e., structured credit securities for investors and debt obligations for debtors.

These investment bank financial inventions were, according to the *Financial Times*, “tailor-made for specific customers [...] never traded [...] and not continuously validated by an active secondary market.” According to Richard Beales (2007), it is understandable that the question was asked “whether in fact the hedge funds, investment banks and even pension funds and insurance groups knew how much the securities they held were worth”. Monetary and other authorities let things run loose, with no oversight, no intervention and no prevention, in spite of all the talk about what was to come.

It must be stressed that in “bull” times, only the market exists; in “bear” times, every expert seeks solace in the State. In this process, the moral hazard debate (that is, the risk that private wealth managers will act with less financial discipline if they take for granted that government will intervene to avoid a financial crash) borders on the hypocritical, inasmuch as there are no alternatives in the current situation. The Central Banks and the Treasuries have become hostage to the marketplace and will remain so while the system’s patterns of wealth do not change. Government intervention to avoid catastrophe does not insufflate the erroneously name “bubbles”; it is present-day financial capitalism that engenders structural financial instability.

Needed Regulation and the Obstacles to Regulated Capitalism⁸

As we’ve seen, financial capitalism contrived a systemic crisis in unregulated “global” capitalism in 2007/2008. The high profile of the affected organizations, the bankruptcies and capital centralization of the financial system – Bank of America + Merrill Lynch is just one example – and the characteristics of the measures taken by Central Banks are a sufficient demonstration. Regarding the latter, and in particular those by the Fed, the American Big Bank, and those of the US Treasury, there is no doubt that they saw the ugly mask of *systemic risk*. Evidence for this is mounting: the magnitude of the public resources involved, the interventionist novelties, the types of institutions being rescued, the number of important countries involved, the foundering of the deregulation canons, the generous provisions of liquidity, the financial support, the falling interest rates, the nationalization-by-any-other-name, and so on.

The world has been living for 38 years, since early 1970, without gold-backed dollars, with floating exchange rates and conservative reforms, under the systemic pattern of wealth of finance-driven capitalism. In these 38 years, several periods of instability and crises have occurred, but none as deep and as “global” as the present one. The processes that had maintained the financial movements

of wealth appreciation seem to have jammed, producing an international depreciation trend of undetermined duration.

We have reached this predicament through financial globalization and the financialization of capitalism, by which paper wealth is multiplied relatively independent of real variables, namely, how much the productive assets are worth. Every player is involved in this process, including productive corporations that have embedded financial goals into their objectives – it is impossible to overemphasize this point. Abundant, more recent interpretations, especially in the media, emphasize the negligence of regulators, the lack of ethics etc. These factors clearly exist and had their share of responsibility, but we must delve deeper into the root causes of the crisis and see how the structures of this capitalism were moving.

The truth is that private, extremely high-leverage operations preponderated and Central Banks and national Treasuries became hostage to this dynamic, as we've seen. At the height of the speculative frenzy, the empire of the marketplace; at the nadir, aid from the State. And this has been happening with every turbulence of the last 38 years.

We must remember that the regulatory environment of these years was inspired by the Basel Agreements that included capital-to-assets requirements for each type of risk, the oversight of risk classification agencies, self-management models “set up” by the large banks, the “oversight at a distance” of Central Banks, and an assumed “discipline of the marketplace” to make information transparent.

The Central Banks gave free rein to the system's ability to create fictitious wealth on a “global” scale, allowing the significant direct and indirect participation of banks through the parallel organizations they created. These “special” organizations, the exotic financial instruments and their corresponding practices became known to experts as the “shadow financial system”: a make-believe world of uncontrolled self-expansion operating outside the banks' balance sheets, beyond the view of regulatory and monetary authorities.

As Cintra and Farhi (2008) explain:

According to Paul McCulley, executive director of the world's largest resource management organization, Pimco, the global shadow banking system includes all the agents involved in leveraged loans that do not have (or did not have according to the rules in effect before the onset of the crisis) access to deposit insurance and/or the rediscount operations of Central Banks. These agents are also not subject to the prudent guidelines of the Basel Agreements. This definition includes the large independent investment banks (brokers-dealers), hedge funds, investment funds, private equity funds, the various special investment vehicles, pension funds and insurance companies. In the United States, it also includes regional banks specializing in mortgages (which have no access to rediscount) and semipublic organizations (Fannie Mae and Freddie Mac) that were created to provide liquidity to the American real estate market.

According to these authors, over-the-counter markets (OTC) have been widely used since 1980 to trade the financial derivatives with which financial institutions sought to protect themselves against risks in foreign exchange, interest rates and the market price of other assets. They also speculated on the trends of those prices or were involved in arbitrage operations.

The relationship between the banking system and the shadow banking system began in the late 1990s, according to the same authors, and went way beyond the former granting credit to the latter. OTC markets began to trade credit derivatives and other securities broadly known as “structured products”. Since then, the banking system and the shadow banking system have become almost inextricably interpenetrated.

These connections help to explain the contamination, the intermarket and interplayer dissemination and the international generalization of the so-called “subprime crisis”, which was at first an American problem. It seems to us, however, that this is only one of the many explanations involved.

At the Economic Club of New York, Paul Volcker, former chairman of the Fed, observed on April 8, 2008:

Today, much of the financial intermediation takes place in markets beyond effective official oversight and supervision, all enveloped in unknown trillions of derivative instruments. It has been a highly profitable business, with finance accounting recently for 35 to 40 percent of all corporate profits.

When the depreciation began, the Central Bank stepped in, going from omission to action. It is what we have been witnessing in its operations as lender of last resort – even for investment banks, which actually lie beyond the Fed’s sphere of competence – and as “market maker”, providing liquidity to a locked-in credit market. The Fed accepts securities that has no buyers and exchanges them for Treasury bills that can be readily converted into cash.

Yet the crisis persists. Some believe it might become increasingly and unstopably more severe. Strictly speaking, no one knows, because one of the traits of the present situation is precisely the shadows cast on all relevant information! Even if after 12 or 18 months (the “magic” number mentioned by many) the worse is over, the pertinent question is: will we have begun an in-depth process to redefine how the system is regulated? Or will only palliative measures be taken while the overall patterns remain unchanged?

The necessary reforms must impose limits to the financial competition that is at the root of the multiplication of paper wealth. They require international financial discipline. This means enforcing limits to much that previously seemed virtuous: self-regulation by financial players and markets, securitization, derivatives, high leverage, financial supermarket organizations, permissiveness in financial innovations etc.

Central Banks and governments have done and will continue to do whatever is necessary to rescue their capitalist economies. Regulating capitalism

per se, however, is a wholly different story – tense, of undetermined duration, perhaps inconclusive. Paul Volcker anticipated as much in his speech:

No one will benefit from regulation and supervision which is unduly intrusive and arbitrary. Venture capital and equity funds have been two successful, creative and valuable parts of American capital markets. By their nature, they are dependent on strong and sophisticated investors, so systemic implications of failure of particular funds is unlikely. Consequently the case for either official liquidity support or direct regulatory intrusion is weak.

With the recent events, many barriers have been crossed under the emergency threat of disruption. Developing a longstanding regulatory framework, however, is a wholly different discussion and a decision of another nature.

For a long time now, many have been warning in vain about the need for a new international financial and monetary architecture. Without a true reform, the scenario will remain one of recurring threats of *systemic risk* and the ensuing social and economic burdens. We are living a problematic historical knot: disarray under unregulated capitalism and regulated capitalism no more than a distant mirage.

As the social, economic and financial situation worsens (and things have worsened from the last quarter of 2008 to now, first quarter of 2009), the consensus seems to be strongly pending toward regulation and government intervention.

It is obviously impossible to foresee what the outcome will be, considering the complexity of the national and international plans engendered by the crisis of capitalist financialization – especially if, in the near future, the financial and economic dynamic begins sending signs that “the worst is over”.

For now, the Group of Thirty, under the chairmanship of Paul Volcker, has just released a document entitled “Financial Reform: A Framework for Financial Stability” containing 18 proposals for regulation and supervision.⁹ It is a document worthy of discussion. Commentators have noticed that bankers are asking moderation from regulators in order not to destroy the system’s innovative spirit (*sic!*). These are some of the recommendations: Central Banks should take a more relevant preventive role; a single regulatory agency for activities guaranteed by deposit insurance; increased capital requirements for banks in bull times, enabling them withstand recessive moments better; emphasis on prudential regulation; demand that financial institutions take on part of the credit risk embedded in securitized products, among others.

In the course of the last few weeks, the crisis has acquired a denser contour, to put it strategically, and I believe the relationship between State and market, economy and politics etc, are being profoundly revised. The most obvious indication of this is explicit or implicit in the need for the temporary nationalization of the banking system in the United States and England. American banks have been going under even before overseers have been able to examine their accounts. Nouriel Roubini, the economist whose pessimism was

actually analytical realism, estimates that “credit losses could peak at a level of \$3.6 trillion for U.S. institutions, half of them by banks and broker dealers.” And adds: “If that’s true, it means the U.S. banking system is effectively insolvent because it starts with a capital of \$1.4 trillion.”

Other aspects will undoubtedly appear, given the volume of public spending, the breadth of fiscal policy, the emergence of a financial policy much more comprehensive than mere monetary policy (interest rate management), the new income and employment policies, and the initiatives of governmental coordination that are emerging from the United States under Barack Obama. Indeed, because if they do not emerge, the chances of negative growth will surely increase.

An article published in 1996, in which I analyzed the dynamics of this capitalism that is now facing its belated systemic crises, stressed:

Thus, this new dynamic-structural form of capitalism would raise the following questions: hasn’t the process of mobility, liberation and illusory multiplication of capital as value (a commodity fetish) gone so far that its ability to organize a sociable economy (with democratic and civilized association, access to jobs and income, vital and cultural expansion) is reaching its historical and social limits? Therefore, wouldn’t regulation be only a lukewarm approximation of the “tip of the iceberg”, the entirety of which would remain “unresolved”? What type of transition are we facing? What type of reform is needed over and above some sort of re-regulation? What kind of democratic socioeconomic reorganization is to be yearned? What type of transition crisis is this that, if mishandled, will lead us to a “neobarbarism” – to which the “neoliberal” praxis and its critical-propositional impotence are a mere introduction? Pragmatically speaking, is it possible to regulate globalized capitalism without intervening in the very logic of competition and in the desire to accumulate for accumulation’s sake, which today is dominated by abstract monetary-financial wealth? (Braga, 1996.)

As I finish this article, I am hearing mostly negative reactions to Barack Obama’s “first program” to face the economic-financial crisis, announced on February 10, 2009. The critics have various ideological hues. A *New York Times* editorial the following day went directly to the point, as we see it: “Someone should have told Treasury Secretary Timothy Geithner that one thing to avoid at a time of uncertainty is raising more questions.”

The core of the problem is that a large number of American banks and financial institutions are insolvent and the federal program offered no solid strategy for this that might lead to credit being once again available to consumers and businesses. Injecting more capital and purchasing the system’s “toxic” assets are not a way out, even with at least \$1 trillion earmarked for the task.

With regard to stimulating aggregate demand, an \$838 billion program was announced, involving spending in infrastructure, income transference programs, aid to local and state governments, tax cuts etc.

For various reasons, the government left some points and procedures pending, implying that this is just the first round in a complex web of interests and in an economy whose standard of development must be redefined to include the viewpoint of most members of American society and their respective impacts on the world. The first round was more a reflection of recent United States history than of the hopes of change entrusted to the new president. But it is still too early for conclusions.

It is human pettiness, however, to constrain the debate and the initiatives to no more than regulation and supervision – to weaving “patches”. Our hope is anchored in reforms capable of changing the patterns discussed here. The historian Fernand Braudel comes to mind and was recently cited by ambassador Rubens Ricupero (2008):

Braudel compared events to fireflies: they glow, but do not illuminate our path. Their light is feeble and does not help us to distinguish long durations, the century-long cycles. In times such as today’s, this makes it difficult to perceive if the tremendous intensity of events means that things have changed forever.

Notes

- 1 This essay develops and articulates the author’s reflections published “fragmentarily” over the last years in *Valor Econômico* and *Folha de S. Paulo* newspapers, and in *Indicadores*, a publication specialized in economic conjuncture of the Fundação do Desenvolvimento Administrativo (Fundap), of the São Paulo state government.
- 2 See Braga (2000a).
- 3 Increasing indebtedness to pay off debts is a kind of Ponzi scheme, according to H. P. Minsky, whereas speculative finance is defined as successive rollovers of debt. Ponzi, by the way, is the name of historical megaspeculator.
- 4 Data from an article by Maria Clara R. M. do Prado, published in *Valor Econômico* (12.18.2008, p. A13), from the research by Daniela Klingebiel (World Bank) and Patrick Honohan (Economics Department of Trinity College, Dublin, Ireland).
- 5 In other works, the risk that private wealth managers will act with less financial discipline, so to speak, if they take for granted that governments around the world will intervene to avoid a generalized financial crash.
- 6 According to Braga (2000b), “the financial macrostructure is where the monetary-financial-ownership operations of various institutions take place – including relevant central banks, private banks, various financial organizations, large corporations and holders of large fortunes. In many financial markets, these agents determine the appreciation and depreciation of currency and assets; they manage the interlinked credit and capital markets; they increase automated foreign exchange transactions in international trade; and they basically manage ‘financial savings’ and international liquidity.”
- 7 See Braga (2007).

8 See Braga (2008).

9 See www.group30.org. “Financial Reform: A Framework for Financial Stability”. See also Safatle et al (2009).

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ABSTRACT – The financial problems that took place as of 2007 reached an international scale and took on characteristics that allow us to define them as a systemic crisis of Financial Capitalism, which, in the end of 2008, completed 38 years of existence. In order to avoid a financial-economic tragedy such as the one in 1929, the “Big Bank” (Central Bank) of each developed country stepped in using well-known instruments as well as new ones. Despite having avoided a Great Depression, this response was not able to stop the contamination of the global economy’s productive performance. Besides the points mentioned above, this essay discusses the uncertainty that surrounds the foundation of an effective regulation and the reform of the current standard of financial domination.

KEYWORDS: Systemic crisis, financial capitalism, “Big Bank”, Great Depression, devaluation, reforms uncertainty.

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