

Current financial crisis

- Differentiation between short term and long term issues required from a Green Economics perspective
- Economies in need of reform independently from the current developments
- Differentiation of economic activity (and its problems) from systems issues
- Based on above the correct answers and policies need to be selected

Financial situation and policies

- Debt crisis (on a large scale, in a country that relied to long on debt, that is inherently unsustainable and short term focused and that imports on a large scale goods from other countries)
- Long period of deregulation based on neo-liberal ideology but no factual requirements for this by the real economy (more focus on the real economy required)

Details of crisis

- Property market – tendency for cyclical patterns
- Debt is taken on with an opinion about the future
- If estimates are wrong – problems are imminent
- In US property market poor risk assessment by banks
- Consumers speculated on rising house prices to secure their debt and rising incomes for the repayments
- Rising debt helps the economy to grow – for a long time this cumulative effect works
- When economic conditions worsened (higher commodity prices etc.) the entire system collapsed
- Then effects on real economy as consumers cut expenditure

Details (cont.)

- Similar developments throughout history:
- Uncertainty of future events
- Underestimation of costs of capital
- Together with opinion that debt allows to consume more (whereas loans only allow to spent money earlier)
- However, banking system recycles saved monies back into the economy
- Provides resources for investments without which an increase in capacity would not be possible

Responses to the crisis

- On the macro level criticism about deregulation and neo-liberalism in particular
- Some ill designed proposals of (financial) system change etc.
- Re-emergence of Keynesian type demand management
- From a Green Economics perspective simple increase in demand not the solution
- The crisis and the green economics issues are separate issues
- Times of crisis opportunity or threat for progressive economics?

Detailed policies

- Closer monitoring of property markets
- Regulation of financial institutions (risk structure and size of banks)
- Increased capital requirements, limit on inter bank lending and formalising of possible compensation funds (contributions based on risks)
- Refocus of financial markets on what is required for the real economy (transaction tax and simpler financial products, reduction in derivatives)
- Change in attitude of the consumer
- Balance of trade implications to reduce dependence that drives debt/deficit culture in US