PUBLIC ADMINISTRATION & REGIONAL STUDIES
6th Year, No. 2 (12) – 2013
Galati University Press, ISSN 2065 -1759

THE 1997 AND 2008 FINANCIAL CRISES CAUSES AND CONSEQUENCES COMPARED

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Abstract
The article focuses on the evolution of two crises based on several decades of deregulation, speculation, privatisation and financialisation, logically connected with a gradual, but certain recess of controls over the financial economy. Solutions and crisis-management went from (possible?) system-maintenance to (indispensable!) system-refounding; from the industrial revolution-type of liberalism to the postmodernist-type of interventionism. One of the conclusions is that beyond the 'de-economisation' of the world lies its possible're-politisation'.

Key-words: crises, interventionism, financial, policy

Introduction – the question of the nature of a crisis

Most commentators of the present international systemic crisis affecting the world banking dynamics tend to focus on the *intensity* of the phenomenon: its intensity or its scale. To be sure, we are into the hundreds or the thousands of billions of dollars of losses, bail-outs, etc. These amounts are such that the common mind cannot quite fathom them. They are close to many national budgets of States on the UN membership list.

However, the present crisis poses another main question: that of its *nature*. Is it an exceptional crisis or one set within the cycle of economic crises over, at least, the past century? Indeed, is a crisis some kind of unforeseeable surprise, of irresistible accident, of unavoidable upheaval? One tends to oppose this deterministic view, which alleviates human responsibilities. So, is a crisis, conversely, a recurrent, systemic state, in between two periods of accumulation of human errors in the management of societies? The man-made nature of crises such as the present one seems much more plausible.

This view can be demonstrated while looking at three stages of two very comparable crises, that of 1997/1998 in Asia and that of 2008/2009 in

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the world: what their causes reveal, what the reactions to them prompt and what their consequences trigger.

The causes: crises as 'revealers' of professional mistakes

In the case of both the 1997 Asian crisis and of the 2008+ world crises, we find strangely close causes. This closeness strongly suggests that recurrent mistakes were made by the professionals of the financial economy. Mistakes in the construction sector, in the management of liquidities and in the up-keeping of trust.

The unbalancing of the construction sector

In this respect, the two situations of crisis can be compared almost perfectly.

In 1997, the cause of the crisis is - already - a mismanagement: an over-building in Thailand of real-estate goods, office space and apartments, resulting in an excessive offer facing insufficient demand. This situation launched the crises in Thailand with ripple effects to South Korea, to Indonesia, etc. The crisis also revealed that building companies had borrowed widely in foreign currencies, mainly in US dollars. When it came to reimbursing as banks became more pressing, naturally, excessive borrowing in US dollars tolled the bell for a major loss in value for national currencies, making the crisis all the worse.

In 2008, the main cause is – again - a mismanagement of the real-estate sector, only much worse. Why? In 1997, it is building companies which over-borrow. In 2008, it is US banks, professionals of finance, which over-lend *knowingly* to US borrowers who offer insufficient guarantee. This risk-hungry attitude then turned into the disaster: the securitisation of toxic assets into the financial stock-exchange system world-wide. All knowingly done, all irresponsibly conducted. This time, the bell tolled for the stock exchange indexes, with ensuing destabilisation of the world financial system.

The magnified need for liquidities

The comparison is again relevant for the two situations.

In 1997, the crisis of the real-estate sector in Thailand created a sudden, almost instant multiplication of the need to refinance loans in a foreign currency, not just in Thailand but also in other Asian countries. Revelations proved even worse: companies in general and conglomerates also, such as Korean *chaebols*, etc., had over-borrowed. They were in debt for over 400% of their own resources, when economists recommend a maximum of 60%. Suddenly, refinancing proved nearly impossible: national currencies such as the Thai baht, the Korean won and the Indonesian rupee, lost half of their value or more.

In 2008, the crisis not only proves multi-sectoral, affecting not just building companies and conglomerates but also globalised economies: all economies are touched through their finances as such. In 1997, banks could lend but stopped lending at excessive risks. In 2008, banks are stopping lending because they themselves are becoming insolvent or go bankrupt. The heart of the matter is: how to keep the lending system afloat or else … watch the world economy stall. And, to be sure, without massive, public, governmental bail-outs, the banking system would have stalled.

The withering of banking mutual trust

In both crises, the bottom-line is an impossibility to go on trusting partners.

In 1997, the sudden, mechanical worsening of the situation caused by the building sector was due to a loss of trust. This loss of trust extended to the attitude of banks towards companies, mainly to small and medium-size companies, which were closed down, laying off tens of thousands of employees. Still, we were witnessing a phenomenon which worsened the crisis without making it multi-sectoral or global. Banks lost trust in *companies* but banks survived, at least the major ones, and continued to lend to each other.

In 2008, the fundamental characteristic is the loss of trust *also* among banks *themselves*. This is the beginning of the end for any financial system because banking is a chain-system, not a monolithic lender-borrower system. Lenders, banks, constantly need to refinance themselves, just as insurance companies re-insure themselves with major brokers. In 1997, banks lost trust in 'the Other'; in 2008, banks are losing trust in 'the Self'. This is a much graver, existential crisis which suggests that the banking system itself has become obsolete or inefficient or at least in need of a major re-founding, in addition to refunding.

To conclude on causes, the point is not to put the blame on such or such groups. I am not pointing to banks as scapegoats. I am suggesting that the evolution over a few decades of deregulation, speculation, privatisation and financialisation logically connects with a gradual but certain recess of controls over the financial economy.

The reactions: crises as 'prompters' of political awareness

Still, in the case of the 1997 and 2008 crises, the striking characteristic of economic crisis management was a political intervention. Here again, the dynamics included objective aspects: to act quickly and to 'rectify' and subjective ones: to reassure.

The determination to act quickly and politically

Both crises are comparable as to the strong will of the public authorities to move in, with one significant difference: action was more international in 1997 and more national in 2008, tolling the return of the State.

In 1997, international financial institutions intervened: the International Monetary Fund and the World Bank quickly decided not to let the situation worsen in Thailand, Korea, Indonesia, etc. These UN, liberal institutions, which have been created with that purpose, were in their role. The system was still functioning. All the more so since, in the case of Korea, the amount loaned – about eighty billion dollars ('only' - by comparison with today's amounts) - were reimbursed in just four years. Intergovernmental management such as this one had been experimented in the case of the Latin American crises. Nothing really new, safe, perhaps, for an interesting *regional* reaction: projects of an Asian Development Bank, of an Asian Monetary Fund, etc.

In 2008, national financial institutions intervene, not without a large dose of international consultation: G 20 summits – two of them! For the first time in the post 20th century, chronic instability, due to two kinds of causes: economic and military, the awareness is that a new system has to be invented, beginning with the out-challenging of the North-South divide. The G-20 summits signal the politically global nature of the crisis. But, more fundamentally than just a signal, national political institutions take over the financial economy. They criticise banks, they condition banks to change their management and they enter bank boards. Even if time elapsed between the first signs of the subprime crisis in 2007 and the first decisions in 2008, political decisions were taken and followed up.

The attempt to improve (*assainir*) economic structures

Help and bails-out are usually conditional. Without exception, in both crises, the philosophy is to ascertain that similar occurrences do not happen again.

In 1997, the International Monetary Fund and the World Bank aid was accompanied by an incentive and an ardent obligation to restructure the economies that had failed to maintain balance. Thus, Thai, Korean, Indonesian and Japanese companies were instructed to improve, make sound again (*assainir*) their financial managing, curing their toxic *debts* (banks have toxic *assets* because companies over-borrow). Even the large, multi-sectoral conglomerates were ordered by the political, national institutions, as relays of international conditionalities, to scrap their former habits. However, this was only partially obeyed. Old habits die hard, especially when *chaebol* managers, bank managers and high officials in the ministries of Finance belong to the same close social networks.

In 2008, similarly, aid was accompanied with governmental obligations to reform a banking system that had so blatantly failed. Remember that major banks actually *have* closed down, in the US, the UK, etc. Most to the point, governmental officials appointed by governments are entering the decision-making boards of banks. However, not in a systematic manner: more so in the UK, the US, etc., and almost not so in France, which not only is illogical, but also surprises and maybe shocks public opinion. However, we should appraise this development for what it means: it means the end of a system where banks were trusted to serve the economy and the public. A reversal is under way: the liberal banking regime is now more and more of an *ancient regime*.

The need to reassure citizens and nations

Subjectivity plays an important role in the economy. Rational anticipations can and do worsen negative downturns or, on the contrary, feed and fuel positive recoveries. Hence the need, in both crises, to reassure populations.

In 1997, this reassurance was addressed to citizens as to *company* managers. The crisis was caused by over-borrowing by company managers. The morality or rather the competence at stake was that of company managers with some degree of complicity from some banks and some government officials. The citizens lost their trust for economic decision-makers, not yet quite for public, political authorities. Over-borrowers and over-investors were in jeopardy. The general public felt concerned mainly with the bankruptcy of small businesses, mounting unemployment and social consequences of the crises. Still, there was hope that governments and social security systems could operate.

In 2008, this reassurance is addressed to citizens as to *bank* managers. The crisis was caused by a 'toxic-isation' of the world finance. The morality at stake is that of bankers, even beyond the question of their competence. Suddenly, the symbols of liberalism and capitalism, the banks, are destroyed and dethroned, and governments seem out-powered by the amounts at stakes. In 1997, the International Monetary Fund and the World

Bank loaned a few tens of billions of dollars; in 2008 governments had to find a few hundreds of billions – ten times more! To reassure citizens is proving a different thing. Governments had to guarantee ordinary citizens' savings, for the first time in over 60 years. Citizens lost their trust for all decision-makers: speculators in jeopardy are still getting golden parachutes. The general public does not know to whom to turn.

To conclude on reactions, the point is to bring a comparative perspective on the worsening of the situation. Crisis-management went from (possible?) system-maintenance to (indispensable!) system-refounding; from industrial revolution-type liberalism to post modernisation-type interventionism.

The consequences: crises as 'triggers' of State-intervention

Finally, again in both the cases of the 1997 and 2008 crises, what occurred was intervention and a return to interventionism, one step ahead of intervention. New conceptions are taking over, from a redefinition of solidarities and an emergence of new leaderships to a series of quasi-philosophical preoccupations.

The re-affirmation of solidarities

Both crises produced consequences of a social and societal type. Beyond the apparent technicalities of the situations, solutions had to be found in attitudes, not just in techniques.

In 1997, the vision and role of Asia changed. At first, this gradually dominant centre of economic dynamism seemed to fail: growth rates as well as the emergence itself seemed no guarantee for development. But Asia, South Korea in particular, recovered. Growth rates were negative for just a year or two and the centre of the world's economic dynamic remained in Asia. This 'recovered Asia', thus became the new Asia, still an economic leader, still an initiator of solidarities: Asian Development Bank, Asian International Fund, Asean +, the Shanghai group, etc. There was a certain neighbourly togetherness in Asia's reaction to the crisis, not a passive dependence on the world system. New solidarities meant that the revelations of economic weaknesses required popular support to the State's necessary intervention.[1]

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1. Symbols also played a role: Korean citizens giving away jewellery and gold ornaments to sustain the country's reimbursement credentials; the Japanese firm managers admitting fault; etc.

In 2008, the vision and role of the North/South divide is changing. Dominance is now associated with, possibly, irresponsibility. The North is losing its status of model towards which to aspire. This loss of status is clearly one of legitimacy. The certainties of the model of advanced economies are also linked to illusions, mismanagement and uncertainty. Solidarities have to be found elsewhere than with the provisions of the Northern model. What we are witnessing is the end of a long-dating bipolar world order, the last manifestation of which was the divide between advanced economies and emergent economies. Thresholds are now blurred. And this is new. So new in fact that western governments seem unable to devise and publish comprehensive recovery programmes that would think anew all aspects of their economic systems. Such programmes are necessary and should make suggestions for the middle term.

The role of leadership and regional leaders

In the case of both crises, an interesting consequence has to do with leadership and therefore with legitimacy, especially regional.

In 1997, the roles of Asia and of China in Asia changed. Not only was China, as the growth leader, not as such affected, probably due to the limited internationalisation of her private sector, but mainly China's macroeconomic attitude was above all one of regional solidarity. If China had accompanied the loss of value in the Thai, Korean, Indonesian and Japanese currencies with a devaluation of the Chinese Yuan, then the modest comparative exporting advantage of those four countries would have been lost. The only asset left to those four countries for a short while, the chance to bring in currency from exports, would have been lost and their situation made all the harsher. China did not choose this unilateral attitude, which would have, though, corresponded to her long hesitation to devaluate in order to boost her exports even further.

In 2008, the legitimacy of the USA is changing as the country is being identified with and blamed for the main cause of the crisis: the sub-prime securitisation of clearly-known toxic assets. The impact of this irreversible reversal in economic credibility is lessened, temporarily, by the change in presidential leadership, but only pending the demonstration of the efficiency of measures taken. When the US Congress votes in excess of one thousand billion dollars in bail-outs, this is not a manifestation of potency; rather an admission of weakness, especially in the subjective perception of many groups in the other countries. Suddenly, comparisons between the US public debt and the Chinese currency reserves come to mind. The question is raised of a 21st century without the US as a major destination of world trade. No doubt that President Obama is having to succeed in the recovery of the US banking and social security systems if he is to be successful as a top executive.

The 'elevation' of economic questions

This is perhaps the most striking consequence of the crises. As if a crisis, as a systemic apex, served the purpose of making awareness braver.

In 1997, the paramount question was that of the financing of the real economy. This was in accordance with what an economy is. An economy is a system of production of goods as well as a system of distribution of these goods. A capitalist economy is a system of production which maximises productivity with capital re-investment and economies of scale. The industrial revolution made such a system technologically possible. The world financial machinery gave that system its necessary fluidity. What went wrong in 1997, for example in Korea, was not speculation but over-confident borrowing by actors of the *real* economy (company managers) and over-confident lending by actors of the fluidifying branch of the system (the bankers). Still, the system was supra-managed with the help of international financial institutions.

In 2008, the paramount question is becoming that of the respective parts of the *material* economy and that of the *financial* economy. This is a more fundamental question than in 1997. It is the question of the very finality of the economic system. Is that finality the provision of consumer goods, which human beings *need* so as to satisfy their material *needs*? or is that finality the provision of speculative profit, which an oligarchic elite *wants* in order to satisfy immaterial *greed*? I choose purposefully provocative words and simplifications. I could choose a terminology borrowed from political philosophy: is the achievement of the common public good still the objective of systems of political accountability? or have corporatist groups taken over the exercise of international regulations?

To conclude on consequences, what makes the present crisis exceptional is the fact that it is global also in the sense of raising global questions. It is suggesting that after a few centuries of *laisser faire, laisser passer*, the liberal economisation of the world is over.

Conclusion – the question of the autonomy of the political

Beyond the 'de-economisation' of the world lies its likely 're-politisation'. More fundamentally, this is the question of the relative place of the economic and of the political. This question has been addressed by the early Marxians themselves, Marx and Engels, throught their theory of 'the determination in the last instance', as well as by the neo-Marxians, such as Gramsci, Althusser, and others. The 19th century suggested the autonomy of the economic; the 20th century demonstrated the persistence of the political, at least until WW II; the second half of the 20th century liberated economic forces but let the world evolve politically towards global systems, first bipolar, then global. Today, clearly, the economic is yielding ground to the political.

Otherwise put, the theory of economic cycles (Kondratieff, Wallerstein, etc.) purports the *economic* determination of the political. But the recourse to the political decision-makers in the present crisis points to a *political* neo-determination of the economic.

And so, if we define the end of the cold war, twenty years ago,[2] as the withering of political borders but not as the withering of the State, it took just twenty years for the economic to demonstrate that it could not survive without the political. Governmental intervention is turning into State interventionism. Time will tell the extent of this upheaval in the making: a re-State-isation of the world, backed by global international financial institutions which would go forcefully against the ongoing regionalisation of the world: multi-regionalisation, inter-regionalisation, cross-regionalisation, trans-regionalisation.

By coincidence (?), at the very time when regions are establishing a new post-bipolarity order, a global world-crisis breaks out. After imperialism, colonialism, fascism, communism, regionalism, maybe something is taking over, which could be coined as State financialism … or maybe trans-Etatism, maybe the best retaliation of States against Regions?

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