SUMMARY

Masayoshi Tatebe

Looking back to the Asian and Russian currency crisis, the dot-com babble, and the speculative boom in oil and grains, it is notable that the scope of each of these past crises was localized and remained within the geographic or market confines of Asia and Russia, the United States, and the commodities markets respectively. On the other hand, the recent housing bubble has had a global impact, both in financial economy and the real economy.

Let us begin with a closer look at the aspect of global financial crisis. It is immediately obvious that a number of developments stand at the roots of this phenomenon of global financial crisis. It cannot be denied that the most notable contributing factors include problems arising from the proliferation of derivatives and securitization of subprime loans encompassing housing loans and various other types of loans. These developments can be shown to be deeply intertwined with the emergence of the current global crisis. In turn, these developments are closely linked to the financial globalization and advances in financial engineering, a by-product of financial deregulation. In the process, a host of previously unknown terms have come to be widely used in both the business world and in academia, such as collateralized debt obligation(CDO), CDO squared, credit default swaps(CDS), and synthetic CDOs. In the final analysis, the essence of what occurred can be summarized as follows. First, historically low interest rates on a global scale fed the housing bubble. Next, U.S. commercial banks and invest banks originated various relatively high-yield ABS and CDO that provided an ideal destination for surplus funds surplus money capital. Sure enough, not only U.S. investors but also investors from throughout the world , including European financial institutions, vied to purchase these financial instruments. As the final piece of the scheme, CDSs were brought in to hedge the risks of the large volumes of CDOs that had been acquired.

The current global financial crisis is rooted in the confluence of a number of conditions that include the accumulation of surplus funds and surplus money capital., the emergence of casino-type finance capital, financial globalization ,and the widespread use of securitization and derivatives. If these conditions had not existed together, the current financial crisis would most probably have remained localized in the United States and would not have developed into global financial crisis. However, this observation does not imply that the modern capitalistic economy has the option of turning back from where it stands today. This inability to turn back in fact symbolizes the dilemma that is inherent in the modern capitalistic economy.