Business as Usual

The Roots of the Global Financial Meltdown

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Introduction

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No adequate account of the contemporary crisis can be limited to short-term problems inside the finance industry. Overleveraged investment banks, the spread of proprietary trading, ever more opaque and poorly understood derivatives, and hedge funds operating beyond regulation all played significant roles. So did a culture of gambling and greed. But it is just as important to explain why the finance industry became so central to capitalism in this period and why risks became so large, concentrated in private hands, yet globally linked. The short-term failings of business as usual are also connected to larger-scale transformations.

This is missed by surprisingly many. There is a temptation to think that the crisis was the work of errant individuals, not the product of systematic operations. Ideology and self-interest reinforce this view among many on Wall Street. *New York Times* business columnist Joe Nocera calls it denial, a refusal to see what is evident, as exemplified by the fund manager Anthony Scaramucci, who, speaking on behalf of "the Wall Street community," complained that President Obama had been "whacking Wall Street like a piñata." It was a strange attack on a president who had sponsored billions of dollars in bailouts to rescue Wall Street. But the point is not simply that Mr. Scaramucci represents the distorted view of those who benefited from economic arrangements that transferred massive amounts of money from those who work to those who make financial deals. Rather, the larger point is that he represents a widely held theory of what went wrong in 2008. "You have 500 to 1,000 rogues on Wall Street," he said. "They were the ones who did counterproductive things to the society."[1] In other words, the crisis represented the work of a few overly greedy traders, rogues, or "bad apples." In this view, there are no lessons to be learned about the importance of financial regulation, the pitfalls of trading in securities neither buyers nor sellers fully understand, or the disastrous consequences of financialization—let alone about capitalism itself.

The contributors to this book do not all agree with each other, but they all disagree with Anthony Scaramucci. They disagree with all those who hold that there is nothing problematic about the system that produced the crisis, that only the excesses of a few individuals are at fault. That there were excesses of individual greed is not in doubt; of course, the greed and the payments made to satisfy it are both outrageous. But greed is not a satisfying explanation. This crisis has been shaped in basic ways by capitalism, by financialization since the 1970s, by politically organized limits to regulation, and by organizational as well as individual irresponsibility. In other words, what we are witnessing is a crisis resulting from business as usual, not simply a disruption of business as usual.

By now there are enough journalistic narratives of the crisis and explorations of its dramatis personae to fill multiple bookshelves. With titles like *Fool's Gold*, *House of Cards*, and *A Colossal Failure of Common Sense* they tell—some of them extremely well—the story of how the new business as usual was formed within the financial industry.[2] The best and brightest from Princeton and Harvard were drawn into working for investment banks; traders became the sexiest and most highly rewarded players on Wall Street; "quants" developed algorithms and strategies to trade with increasing speed on the basis of more factors than they, let alone their managers, could understand; banks became proprietary traders on their own accounts; and a huge range of derivatives and specialized financial instruments were developed—in some cases, initially in an effort to stabilize markets and manage risk, but they were increasingly used to expand leverage and simply make money, lots of money. This is a crucial dimension of the crisis. But it needs to be integrated with a longer-term view of why financialization happened, how neoliberalism made a difference, and what futures are open now.

This first volume in the Possible Futures series takes on the core task of deepening historical understanding of the crisis. This means both showing how it fits into the patterns of previous decades and even centuries and, crucially, asking how it shapes our choices, capacities, and challenges for the future.

First of all, contributors show how the crisis today reflects problematic responses to previous crises and also the underlying contradictions that make capitalism prone not just to crisis but to specific kinds of crises. As Beverly Silver and Giovanni Arrighi make clear in chapter 1, a crisis of industrial overproduction is very different from a financial crisis—and not every crisis is a systematic crisis. Following Arrighi's theory, they show how cycles of innovation intersect with recurrent crises and stabilization of capitalism under a series of hegemonic leading economies.[3] The rise of each new hegemon—like the United States in the early to mid-twentieth century or Britain in the eighteenth—is marked by the solving of problems inherited from the previous period. But of course new problems arise, and each cycle ends with the hard-pressed hegemonic power withdrawing into financial speculation. This produces a late phase of secondary prosperity—prosperity built more on finance than the production of things. And it is crises of these financial phases that gain the capacity to transform the larger system. The question today, then, is whether a new hegemon will emerge. Will China, or perhaps a group of countries, succeed in stabilizing the economic system?[4] This would mean making material production ascendant again and meeting environmental, natural resource, energy, and other challenges. It would probably also mean finding a way to reduce rather than exacerbate inequality.

Immanuel Wallerstein's chapter 2 account complements Arrighi and Silver, showing in more detail how in the 1970s a major crisis marked the end of a phase of industrial capitalism. Wallerstein introduced world systems analysis precisely in the context of the 1970s crisis, emphasizing the extent to which the dynamics of capitalism had to be understood through analysis of an international division of labor, recurrent crises and waves of problem-solving, and the stabilization and leadership provided by successive hegemonic powers.[5] Here, Wallerstein details the different challenges to capital accumulation that coincided in the 1970s, making clear that these involved political demands for a greater share in wealth as well as long-term economic cycles. A turn to finance temporarily restored economic momentum and capital accumulation—though with sharp limits, including limits on how wide a population would share in prosperity. The current crisis, he argues, is a return of problems not addressed in the 1970s. Like Arrighi and Silver, Wallerstein maintains that it is not clear that capitalism can recover. Among the possible futures we must consider is an era of chaos and instability as the world system gropes toward a new form of organization. It may regain stability and capital accumulation may remain its driving force—or the chaos may give way to some other future.

In chapter 3, David Harvey situates the current crisis in relation both to capitalism, as such, and to the era of neoliberalism and finance capitalism. He stresses in particular how an era obsessed with managing risks failed to come to terms with "systemic risk." Figuring prominently in this is the question of what would happen to a highly leveraged financial system if liquidity dried up. We now know a good deal more about this in practical terms, thanks to the experience of recent years. But Harvey argues that to make deeper sense of it, we should address the internal contradictions of capital accumulation. Drawing on Marx, but challenging most conventional Marxism, Harvey shows that capitalism works in part by repeatedly challenging, transcending, or working around limits, barriers to growth. It suffers temporary crises and regains momentum as limits are overcome. As Wallerstein argues, the crisis of the 1970s reflected one set of barriers to growth. But the radical financialization by which leading capitalist economies "recovered" sowed the seeds of a deeper crisis. Harvey sees the potential for renewed capitalist momentum with China in the forefront, until the next crisis, but he also emphasizes the possibility of trying to create a new and different kind of economy more directly focused on meeting human needs.

Since the 1970s, many of the world's leading capitalist countries have turned significantly away from advancing underlying "real economies"—the parts that produce usable goods—toward seeking profits from financial transactions. In chapter 4, Daniel Chirot documents the culture of extreme risk-taking that became business as usual in this era of "financialization." His stress is on the internal world of capitalist elites, but less on the ethics of capitalism and the proverbial bad apples than on how relatively honest and upstanding bankers were transformed into highflying financiers who ignore risks. Chirot suggests that the crisis of 2008 was a more or less conventional capitalist crisis and that it can potentially be met by a more or less conventional, largely Keynesian government response. But it was also a panic, a product of social psychology, and Chirot closes by asking what happens when such a panic coincides with deeper capitalist crisis and long-term technological cycles. We face a choice of possible futures: serious reforms (which seem increasingly unlikely as anxiety about a deep depression subsides), muddling through and leaving in place the sources of future crises (most likely), and an even greater crisis produced not by economic failure but by political madness or war.

Financialization was not simply a trend but a response to previous crises in profit rates and the accumulation of capital, most notably in the 1970s. It was encouraged by politicians preaching the virtues of marketizing almost everything and thus turning public property into private assets, often leveraged by massive credit. This, in turn, reflected deeper ideological work seeking to discredit regulation and public enterprise; to reduce business corporations to commodities themselves, bought and sold; and to encourage the notion that all human needs could best be met on the basis of private-property transactions. Yet, of course, as the financial crisis has demonstrated, those private-property transactions had massive public consequences, and most of the world's richer states used tax funds on an enormous scale to bail out private investors.[6] Even those who argued that individualism should rule and wanted to minimize the importance of the collective found themselves relying on state action to avoid economic disaster.

Neoliberalism and financialization went hand in hand during the late twentieth century. They produced a form of capitalism based in many ways on the proposition that the social didn't matter. What mattered were individual property owners and economic transactions among individuals.[7] Welfare systems and social protection were hollowed out or eliminated. Educational systems, health care, and transportation and other infrastructures all suffered, not least in the twentieth century's rich countries. Inequality increased to a startling extent, reversing a long previous trend in which benefits from both private enterprise and government spending were distributed more and more equally.

This raises the second major theme of the chapters in this book, the question of how rich and middle-income countries may reorganize to bring the social back into central consideration. This is the question approached in the Marxist tradition as "social reproduction"—the reproduction of the collective conditions required for continued renewal of material production and the economy more generally. Nancy Fraser, in chapter 5, and Caglar Keydar, in chapter 6, both show why the current crisis is not just a financial crisis, narrowly conceived, but also a crisis shaped by the attempt to increase short-term capital accumulation by reducing social supports that capitalism in the long run requires.

Fraser introduces a "neo-Polanyian" conception of capitalist crisis. Polanyi described a "double movement" by which societies typically correct for the predations inflicted by unregulated markets (and thus secure their future). Government is crucial to providing social insurance, education, food or health support, and other benefits—and since Bismark, it should be obvious that this is as important for conservative as for leftist governments. Social movements are crucial to producing government action (and also, often concessions from businesses). But these are not simply class or labor struggles. Nor does the double movement imply overcoming capitalism; it can be a push for "repurposing" capitalist wealth as well as for simple redistribution.

Drawing on Polanyi, Fraser also demands that we go beyond him. Polanyi failed to see that state action "correcting" for failures of markets could also be a form of domination. There are conservative as well as progressive ways to provide social support. Fraser protests against approaches that protect some groups at the expense of others—and calls for public contestation to reshape the "norms infusing social protection." Polanyi calls our attention to the disembedding process by which markets are made ends to themselves rather than means of meeting social needs. Fraser suggests it is not enough to re-embed markets in social relations and purposes; it is crucial to do this in ways that expand rather than restrict opportunities.

Keyder stresses social reproduction at the level of not just the nation-state but also the world system. He emphasizes that as much as members of the middle class of rich countries have suffered, the burden of globalization's inequality, exploitation, and crises is borne most by the world's poorest. The dynamics of the current crisis come largely from underconsumption. Absent major government interventions, there is no guarantee that capitalists will invest in forms of production that serve the everyday needs of majority populations (let alone the very poor). And in the last several decades, governments have not counteracted capitalist tendencies to inequality but exacerbated them in the name of neoliberal freedom from regulation and constraint. Not surprisingly, the distributions of wealth and income have become much more unequal. Rich countries rolled back social welfare provisions and less well-off ones sacrificed hopes for better living conditions to the competition for external investment.

Keyder is pointed in emphasizing the extent to which a large part of the world's population is more or less irrelevant to the calculations of capitalism—central neither to production nor consumption. He argues that failure to expand consumption is one of the reasons for overreliance on financial sources of profit. The current crisis is an opportunity for social democracy to regain the initiative after neoliberalism has so strikingly faltered, though this is hardly guaranteed.

Closely related to social reproduction is the question of whether there may be a new economic culture to supersede that of the recent past. In chapter 7, Manuel Castells offers encouragement to think this may be so. He sees the global financial crisis as a direct outgrowth of the institutional arrangements and practices adopted as capitalism shifted into a global informational economy in the late twentieth century. Deregulation combined with technology to transform financial markets; nearly every economic asset was securitized, often in the form of exotic new assets. The crisis reverberated globally, but as a turbulent flow of information, not just the market transactions that conventional economic theory (and indeed financial engineering) anticipates will "clear"—reaching a new level of equilibrium even if the new level of stability is sometimes lower. Financialization allowed global imbalances to grow more and more extreme—as, for example, China accumulated massive investments in US debt. Global creditors (like China) and global energy suppliers took on pivotal new roles. But even as this capitalist global structure was becoming fragile, seeds of a new economy were sprouting in its interstices. From experiments in barter and alternative currencies to cooperatives and projects like urban farming, these are generally of very small scale today. Nonetheless, they suggest that alternatives are possible if the institutional constraints of conventional capitalism are reduced. Technological innovation, networking, and higher levels of education underwrite this new economy. They were important to capitalism in its ascendant financial phase, though it blocked their transformative potential by concentrating capital and limiting wages. And they support alternative-lifestyle communities today. Castells anticipates partially successful remedial action within the old framework but increasing pressure to change it and growing spaces free from its direct domination.

In chapter 8, Gopal Balakrishnan explores the contrary possibility, that capitalism may not this time be able to generate innovation enough to renew its dynamism. Balakrishnan acknowledges that a new phase of more dynamic capitalism, marked for example by technological innovation, might yet follow the current crisis. But he examines what it would mean for capitalism neither to revitalize itself nor to end but instead to enter a long-term, near steady-state of stagnation. This idea challenges Marxists as well as neoclassical economists—ironically joined by faith in an inevitable new age of expansion. Balakrishnan notes the expansion of capitalism to a truly global scale in the era of financialization but argues that this masked a long downturn in the "real economy" of goods and services that meet human needs. Relying on finance also made speculation nearly unstoppable, which produced its own problematic effects. And the debt accumulated by many of the world's rich countries sharply constrains their capacity to act in support of capitalist markets. Balakrishnan considers the possibility that China might rise to be capitalism's savior but thinks it is still too poor and too dependent on production for export (precisely to the countries facing economic crisis). With massive productive capacities that it is already having difficulty matching to consumers, capitalism may enter a long era of deflation.

These are economic questions, but not merely questions about "the economy." They are also questions about how ordinary people think about the future—indeed, whether they feel they can think about the future. As Fernando Coronil suggests, writing about Latin America in chapter 9, the very future has come into question. Not only there but in much of the world, many people find it hard to connect concrete actions today to long-term plans for tomorrow. Saving for retirement, seeking education for upward mobility, and working hard to advance a career are all projects that made sense in the previous era and now seem like illusions to many. It is not just social institutions that need to be rebuilt, thus, but a cultural orientation that makes sense of economic life and connects it to personal life.

Latin America was the one world region in which a version of the Left regained the initiative during recent decades. Regimes variously described as "new populist" or "new nationalist" came to power in Bolivia, Brazil, Chile, Ecuador, Nicaragua, Peru, and Venezuela. These involved different leaders, some with backgrounds in the military, some with long roles as social movement leaders, some with much deeper commitments to electoral democracy than others. They shared a refusal to accept the free-trade ideology of the "Washington Consensus" (see further discussion in volume 3).[8] They shared also a capacity to speak to and for the poor in countries long governed by elites who maintained a nearly caste-like distinction, frequently marked by race. They reached out to indigenous populations, often drawing electoral support from regions that had previously been only weakly mobilized for national politics. Many were explicit in denouncing both the long history of colonialism and US domination and the more recent one of neoliberal policies and their depredations. They were also willing to use the state to control natural resources and exercise a strong economic role generally, and in many cases to commit national resources directly to programs for the poor. For a time, the new Latin American Left inspired considerable optimism in the hope that its leaders had developed a basic challenge to rapacious neoliberalism. As Coronil makes clear, the situation looks more complicated now.

Brazil's Luis Inácio Lula da Silva was perhaps the most successful of the new leaders, not only staying in power but also overseeing large-scale expansion of educational opportunities and other social welfare programs. Brazil's economy has grown rapidly and diversified industrially, placing it alongside Russia, India, and China as an emerging global leader. And in many ways, Lula's challenge to neoliberal consensus came in the form of successful state-led development, not unlike that in China, revealing orthodox prescriptions to be faulty as well as unjust. Brazil has not merely resisted neoliberalism and US domination, it has delivered incremental but noticeable improvements in social welfare.

The relevance of this here is twofold. On the one hand, part of the story of the current crisis is the extent to which countries like Brazil passed through it with minimal damage. This is true also of other "BRIC" countries, with the exception of Russia. And this raises the second point of relevance. Brazil's success was based significantly on economic diversification and industrial development. It is neither a petrostate nor a creature of finance capitalism. Achieving a similar success is vital for Russia if it is to grow alongside Brazil, India, and China. These themes are minimally addressed in this volume but are central to the third volume in the Possible Futures series, which takes up possibilities for growth after the crisis and locates these largely outside the previously rich countries.[9]

Few other Latin American countries have been able to diversify as effectively as Brazil or to weather the financial crisis with as little upheaval. And crucially, few others have been able to maintain as strong a connection between everyday life and incremental change, on the one hand, and high ideals, on the other. Coronil presents this as a dilemma for the Latin American Left. The critiques offered by Hugo Chavez and Evo Morales are resonant: the need for social transformation is evident; yet the socialist ideal seems always deferred and the quotidian present virtually disconnected from it. No "next steps" seem clearly to connect the future to the present. This is both an important challenge for the Latin American Left and an insight of much more widespread significance. The current crisis has engendered only very weak social movement response, particularly from the Left. But it is entangled in many places with populist politics, more often linked on this occasion to the Right, but expressing alarm and anxiety over a sense of disconnection from the future.

This volume opens by situating the current crisis in larger perspective, that of global capitalism. It poses the questions of (a) whether capitalism will regain its dynamism and incorporate this crisis as temporary damage and the occasion for new growth and (b) whether this will be marked by a shift in the location of hegemonic power and its capacity to stabilize and guide the system. The next set of chapters raises the question of who wins and loses in this system—and especially whether the system can survive without providing wider distribution of benefits (and whether this will come about without political movements demanding it). Implicitly, the final three chapters offer three scenarios: capitalism may muddle through the current crisis, it may enter a long era of low dynamism and perhaps deflation, or it may be transformed by a new economic culture that has grown partially in its interstices and partially on the basis of new technologies it has produced. These may not be all the possibilities, but they remind us that we are facing deeply divergent possible futures and that which we suffer or enjoy is partly a matter of collective choice.