SERIES INTRODUCTION

From the Current Crisis to Possible Futures

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The phrase "global financial crisis" has been repeated ten million times since March 2008. The rich countries of the twentieth century have been plunged into the worst recession since the Great Depression. Even after massive infusions of taxpayers' money, financial institutions remain shaky. Major banks have failed; sovereign states in Europe face bankruptcy with unpredictable consequences for the European Union. Recovery remains elusive, and perhaps "recovery" is not the right word, for this crisis may mark a dramatic moment in a more basic shift of economic momentum and political power from the rich countries of the twentieth century—especially in Europe and North America—to more rapidly developing countries in what had long been capitalism's semi-periphery. The crisis should focus our attention not just on the immediate events that precipitated it but also on the potential for deeper transformation. A recovery to something like the patterns in place before 2008 is only one of the possible futures open now, and not the most likely.

The word "crisis" can easily be abused. It carries a sense of urgency belied by the willingness of politicians, investment bank managers, oil-rig supervisors, and many of the rest of us to put off decisive action. It suggests the necessary climax to a natural process, like the turning point in a disease. When a high fever breaks, if a patient hasn't been killed, he or she usually recovers. Yet when a social problem is called a crisis, neither the turning point nor where we turn is likely to be so clear. Crises call attention to social problems, but they open a variety of possible futures. A return to business as usual may be one of those possibilities, but not necessarily the most likely.

Indeed using the word crisis is commonly a way to try to get people to take action, to indicate that we have no choice *but* to do *something*. It is performative, not merely descriptive. It is a call to action. And so the very naming of a crisis—and the repeating of the name in a million newspaper articles, political speeches, and dinner-table conversations—actually helps to constitute it. The definitions that gain currency focus attention, suggest what courses of action are appropriate, and even invoke different pre-crisis histories. They accordingly demand critical examination.

Focusing on the suddenness with which the financial crisis became acute may be deceptive. To be sure, few people were prepared for the news of bank collapses and stock market crashes like the startling one that began March 7, 2008. The suddenness came from a tipping point, when long-term factors produced a discontinuous drop in market values and set off a chain reaction. In fact, warning signs had been accumulating since at least 2005 or 2006—and a few prominent analysts had issued actual warnings.[1] The housing-and-mortgage bubble itself peaked in 2006, though it took a further eighteen months for the implications to become fully manifest. More basically, the 2008 crisis was one in a long recurring pattern of financial crises shaped both by contradictory pressures in the financial system and the recurring illusion that "this time growth is different" and growth can be sustained without crisis.[2] There was the Asian financial crisis of 1997; there was the end of the dot-com bubble in 2000. This series of financial crises is part of the general tendency of capitalism to crises but also specific to an era shaped by "financialization"—a large-scale turn away from industrial production toward finance as a source of profit in the world's richer countries (and a consequent decline in manufacturing employment and a rise in service jobs, though this never quite made up for the loss).

A "financial crisis" mattered much more after thirty-five years in which the financial sector grew dramatically both in absolute terms and as a proportion of the economy of rich countries. It mattered for capital accumulation, but also for the well-being of people who had mortgaged their homes, invested their retirement savings, or taken jobs in highly leveraged and vulnerable businesses. Analyzing the crisis through the conceptual framework that shaped financialization itself encouraged government responses centered on the financial sector and specifically banks. These were initially dominant, securing the stability of markets—and the fortunes of the wealthy—through contributions from the taxes of all. There was much less substantial effort to secure the finances of the poor and the middle class. This was a matter not just of class bias—though it was that—but also of analytic frameworks that focused on financial wealth rather than material production or human well-being.

The version of financial thinking that was predominant in response to the crisis was that which grew with massive expansion of financial markets in the preceding decades. It emphasized immediate liquidity for markets and the role of large firms. So there was less help for individual homeowners faced with possible foreclosure as their mortgage payments escalated. The same focus on finance extends into austerity programs designed to reduce government deficits and reassure bond markets, not least in Europe. To be sure, the US government and some others have also taken up financial stimulus packages, including investments in infrastructure and support for nonfinancial industries. These have been neither immediate nor ubiquitous. But the point is less about the detail of government responses than about the extent to which they were organized by the ideas central to expanding financialization.

The financial crisis is frequently described as "global," but here too one has to think past the most immediate senses of the term. It is undeniable that financial upheaval transcends national markets, linking Wall Street and the City of London to Greek sovereign debt and Russia's investments of the profits from its oil industry. But it is not equally a crisis everywhere. China has kept on growing right through it, even if its export markets contracted for a time and its heavy investment in US debt caused worry. The national economies of Brazil and India are also flourishing. The phrase "global financial crisis" rolls off the tongue and is not false. But saying "global" can obscure both the unequal impact of financial crisis and the extent to which it is a moment of acceleration in a broader, longer-term shift of economic momentum from West to East, and perhaps somewhat from North to South.

And of course it is absolutely true that the crisis involved greed and theft, fraud by firms and individuals, failures of management, and failures of regulation. It was shaped by the prestige and profitability of traders, which allowed them to evade the scrutiny of less prestigious risk managers. It was shaped by successful campaigns to make sure that government didn't regulate the financial industry more or demand open, transparent accounting for its practices. It involved the development of new business practices and new financial instruments. But though all of these are important, none of them explains the crisis. And none of them enables us to look clearly at the options open for action now.

The crisis is all too real. Saying it can be understood in different ways, more superficial or more penetrating, does not mean it can be wished away. But in order to think well about the possible futures that are open, it is necessary to have a deeper understanding of the crisis that brought us here. Much too widely, it is discussed as though its causes were just short-term aberrations. Much too often, questions about the future are limited to asking when things will return to "normal." But the crisis is more than just a brief hiccup in business as usual. And the possible futures are more diverse and potentially more transformative than simply a resumption of economic growth.

In the first three volumes of this series, some thirty-six of the world's leading social scientists analyze the crisis in historical context and with broad comparative attention to different parts of the world. They address the connections between financial upheaval and a range of other social issues, and they consider the ways that both past history and current challenges shape possible futures. Volume 1, *Business as Usual: The Roots of the Global Financial Meltdown*, looks at the crisis itself, situates it in historical context and asks how it might influence transformations of global economic and political relations and whether this upheaval in older economic relations reveals patterns of new possibility. Volume 2, *The Deepening Crisis: Governance Challenges after Neoliberalism*, connects the financial crisis to a variety of other issues. These include challenges of global governance and financial regulation, of environment, conflict, and security, and also the ways religion, ethnicity, nationalism, and media shape each. Finally, volume 3, *Aftermath: A New Global Economic Order?*, focuses on the different ways in which future economic growth may take place, how this will shift balances among different parts of the world, who is likely to win and who will lose, and how this will relate to prospects for a new and perhaps more multilateral world order.

In the remainder of this introduction to the series, I offer a view of the financial crisis itself, of its relationship to the previous crises of the 1970s and to the long bubble that connects the 1970s to the present. While this is shaped by my own interpretation, it is also intended as background to the discussions that different contributors offer of longer-term views, views shaped by implications for other crises, views from other continents, and views of future challenges. It is important both to see the crisis from different perspectives and to see the connections among these different views. It should be clear that this is only a proximate history; some contributors would stress much longer-term patterns. But it is important at least to connect the very immediate crisis in American credit markets to broader patterns and implications.

There are manifestly many themes that I cannot address in detail here, like the return of geopolitics to international relations and the restructuring of world regions or the tensions between multilateral cooperation and multipolar competition as efforts are made to stabilize global political economy. I don't propose to summarize the contents of these three powerful and provocative volumes but rather to suggest one possible thread that may help to integrate their contents—and the different histories and challenges that connect the current crisis to possible futures.

The Financial Crisis

In early 2008, shares on the New York Stock Exchange fell with alarming speed. Business reporters wrote about a "subprime-lending crisis." Readers learned that billions of dollars' worth of mortgages were not being repaid. Many of these had been made to borrowers who didn't have the kinds of assets or incomes that predict a good chance of repayment.

This happened partly because a number of banks discovered a route to rapid—if unsustainable, dangerous, and possibly criminal—profits.[3] Rather than simply lending money prudently and deriving profit from the interest paid, they would write as many mortgages as they could and sell them off as fast as they could. Most of this was done in private markets, but the process was aided by government programs designed to help less well-off Americans get mortgages.[4] The now-infamous Fannie Mae and Freddie Mac bought enough mortgages to maintain liquidity in the market and helped repackage them as tradable securities.[5] Securitization was crucial. Historically, a specific bank might lend money to a specific homebuyer, who would repay that bank over a period of years. Securitization broke this connection between making the original loan and its long-term ownership and repayment. It meant essentially bundling many mortgages together and selling shares in that pool of debt and rights to repayment. Mortgages made to those with good credit histories and high capacity to repay were bundled together with mortgages to people who might previously have been considered too risky to get a loan. Companies issuing mortgages had an incentive to make as many loans as possible, so their employees became more like aggressive salesmen than circumspect bank officers. In some cases, they even went door to door offering mortgages to people who already owned their homes. More and more mortgages were written with less and less scrutiny of the capacity of borrowers to pay. Mortgage-writing speed came to be rewarded more than prudence, for the practice of ignoring once-significant standards of prudence seems to have become habitual for many banks and companies that specialized in marketing "subprime"—that is, especially risky—mortgages.

In principle, the securities that combined many mortgages spread the risk. But much depended on the assumptions that housing prices would keep rising and defaults would be relatively few. When housing prices began to trend down, the mortgage-backed securities became toxic, and it was hard to sort out the good from the bad. The issue would resurface when banks set out to foreclose on mortgages not being repaid: many found they lacked crucial documentation. But once again, the old business virtue of prudence was not much in evidence. Major lenders, such as Bank of America and Chase, assigned low-level clerks to initiate foreclosure proceedings without fully reviewing documentation. Many of these were "robosigners" who processed hundreds or even thousands of mortgage foreclosures a day, predictably producing numerous errors.

Issuing so many shaky mortgages would have harmed many under almost all circumstances, but the effect was made more severe by the role these securities played in the larger financial system. Historically, mortgages have been a relatively solid asset, and so these new securities were treated as firm enough to count as collateral on the balance sheets of investment banks and insurance companies. Accounting practices supported this use, but of course securities that bundled together loans to people with good credit histories and relatively high incomes and those to people whose backgrounds had never been checked were in fact not very solid. Securitization thus helped make profiteering in dubious mortgages into a bigger financial crisis. These securities became tradable assets and were sold to a variety of financial institutions. These financial institutions in turn used their mortgage assets as collateral to borrow more money. This was possible partly because the banks that used these mortgage-backed securities as collateral had been deregulated by the US government under President Bush. They were allowed to work on a larger scale and to borrow much more money with less collateral. Many did this, enjoying high profits as they borrowed against minimal backing and were certified as credit-worthy by ratings agencies because that backing consisted of mortgage-backed securities that were still presumed to be stable (despite warnings of a housing-price bubble).

The expansion in mortgage lending had the effect, thus, of creating massive new liquidity. It was like a private, but government-sanctioned, mechanism for printing new money.[6] The use of mortgage-backed securities as collateral also linked many financial institutions not primarily in the mortgage business to the fate of the housing market and to each other. This is one reason a fall in the housing market had such broad implications.

But two other contributing factors also need to be considered. First, financial institutions used their new liquidity largely to make speculative investments. Second, they were aided in doing this by the rise of "derivatives."

The tendency toward speculation was part of a new culture in the finance industry, a culture of gambling already evident in the late 1980s. The bond trader at the center of Tom Wolfe's 1987 novel *Bonfire of the Vanities* thought he was a "master of the universe" when he closed a great deal.[7] And over the next generation, investment banks and other financial institutions recruited thousands of the "best and brightest" from places like Princeton and Harvard, gave them the opportunity to make great riches without producing anything other than successful trades, and socialized them into a testosterone-laden culture of competition (financial trading was a boy's club).[8] The job of a trader moved from a secondary status to the forefront of the financial industry. Traders could make more money faster—for themselves and for their firms—than nearly anyone else. They were rewarded accordingly, and for the most part, firms made little effort to make sure their trades were prudent. Indeed, the managers charged with ensuring that investment banks followed both the law and their own internal guidelines were generally of much lower status and clearly unable to reign in traders betting on a hunch.

Many of these trades involved derivatives—securities that essentially placed bets on some other financial indicator or indeed almost anything. This could be a bet on the outcome of the World Series, but it was more often an index, say, of the price of oil or the value of shares on the New York Stock Exchange. Derivatives were based on underlying assets, but these needed not be solid like barrels of oil or actual shares of stock. They could be other derivatives, like credit-default swaps (essentially part of a market in risk itself). These were often extremely complex, with multiple underlying assets and contingencies. Even those trading derivatives often didn't understand them fully. Nonetheless, many of these derivatives were not treated as speculative investments but used as collateral on balance sheets. Acts of "creative accounting" supported this system in which firms in effect guaranteed each other's credit against default. This tied different firms together and concentrated the effects of a credit shortage. The speculations were of nearly infinite variety, reflecting the creation of an enormous range of financial instruments, many of them opaque to all but specialists and sometimes not fully understood even by those who traded them most actively. The fever broke in 2008 with a series of interlinked defaults and losses of liquidity. Trillions of dollars of paper wealth disappeared.

The "housing bubble" thus became part of a much bigger financial crisis. The US government created a fund (TARP—the Troubled Asset Relief Program) to loan money to underfinanced banks and to buy or insure illiquid assets—like mortgages not being repaid. The United States was the biggest but not the only player. Around the world, other governments tried to shore up financial institutions that had made bad loans. The 2007 collapse and 2008 nationalization of Britain's Northern Rock Bank was a harbinger of a wider pattern. In many European countries—where renting homes had been more common than purchasing them—there was a massive move toward private ownership through large-scale mortgage debt. This extended to second-home markets for a newly prosperous middle-class as well as the very wealthy. And it paved the way for sharp recessions in other countries that had enjoyed real-estate booms, like Ireland and Spain. By September of 2008, the collapse and bankruptcy of Lehman Brothers, a major US investment bank, made it clear that the crisis was major. At this phase, it looked like a US-centered event, but it was not long until a series of European countries faced severe financial crises of their own, were saved from bankruptcy only by European Union interventions, and implemented wrenching austerity programs.

If the bursting of the housing bubble was a precipitating factor, it was clearly not the sole cause. Financialization had taken off particularly as part of capitalism's "recovery" after the 1970s (on which more in a moment). It affected not just the housing market but markets for capital, credit, and currency exchange generally. There was a massive expansion in government debt (unequally distributed around the world) and in some places in sovereign wealth funds. There was also a massive expansion in private consumer debt, of which housing was only one large part. Financialization also facilitated growing export trade in some developing countries—not least China—where government financial policies subsidized industry. This was not simply a matter of government action in China or elsewhere; it was a collusion with Western capitalist firms that found short-term profits better served by relocating production facilities to countries that offered lower wages and looser environmental and other regulations.

Many different factors combined to produce the crisis that became a public drama in March 2008—and also to make it longer and harder to counteract than any of the other crises of the last thirty-five years. The use of securitized assets and derivatives as collateral both increased liquidity temporarily and established deep linkages among different firms. Often these were not even fully clear to the companies involved. But every credit-default swap (along with various kinds of insurance and a host of other financial instruments) created a "counterparty risk." That means, simply, that a dip in the fortunes of any one company quickly affected others who were holding the first company's debt and often using it as collateral for debt of their own. This was exacerbated by problems linked to high-speed, often automated trading. Market swings could be extremely rapid, creating ripple effects that were hard to anticipate or control; relatively localized downturns could quickly become systemic. This made the artificially inflated liquidity of credit-based financial markets vulnerable to sudden collapse. And since the algorithms driving the pricing of many derivatives assumed unlimited liquidity, they added to the vulnerability.[9]

In sum, there were many complexities to the financial crisis, many ways in which the specific operations of financial institutions and financial markets helped to create the conditions for it and trigger it. The dominant interpretation of the crisis thus saw it as occurring mainly in banks and very large-scale financial markets. It was a crisis because the stock market fell and banks collapsed. This interpretation underpinned the widespread government response of trying to shore up the banking system with a combination of bailouts and virtually free credit. This was all important, but focusing solely on banks alone can be misleading. First, looking inside the mechanisms of finance can distract us from the rising overall importance of finance—which, since the 1970s, has more than doubled its share of US GDP. Second, looking solely at finance makes it easy to think of the crisis as only a crisis of money rather than of human life and social organization.

Looking beyond big financial institutions and state-level macroeconomic problems—at Main Street, as it were, not just Wall Street—one sees the crisis in more human terms. One can focus on banks experiencing a crisis in mortgage-backed securities or on ordinary families defaulting on mortgages and losing their homes. Instead of emphasizing the fall in stock markets, one can stress rising unemployment. To frame the crisis differently may shift policy recommendations. The US government focused on ensuring that banks and some other corporations would stay profitable; it took the approach that helping big business would eventually help ordinary citizens. It provided relatively little direct help to struggling Americans. Jobs were a consideration in action to save General Motors but not so much in action to save Wall Street investment banks.

The point is not to argue that either of these interpretations is "right" but that they and dozens of others remind us that the crisis is a matter of interpretation. We need to see it from multiple angles. This doesn't mean that all interpretations are of equal merit, and it certainly doesn't mean that there are not definite real-world events involved. There was, as Saskia Sassen puts it, "a savage sorting of winners and losers."[10] But the crisis has many dimensions and can be seen from different angles in different time frames. And it is not over.

It's not just that there are multiple short-term causal factors to weigh—mortgage-backed securities, credit-default swaps, proprietary trading. It is also that different empirical accounts of this crisis—different stories—reflect distinct underlying concepts of capitalism, of finance, and of crisis itself and distinct ideas about whether to focus more on financial markets as such or more on the lives of ordinary people. Each analysis informs a particular vision of possible futures and policy or public actions. Is this just one more of the crises to which capitalism is prone? This would suggest that recovery is likely and business as usual will be restored. This would reveal crisis to be just a phase in the business cycle. But it is also possible that there will be a transformation—for example, an accelerated shift in economic momentum from West to East and North to South. Is the crisis a sign of the exhaustion of a particular hegemonic structure within capitalism that might be renewed with new leadership? This would suggest that the era of US dominance in the world economy may be over and that countries developing rapidly today, like China, India, and Brazil, may play bigger roles in the future. This could just mean new leaders for continued capitalist expansion, or perhaps the crisis is a sign that capitalism is reaching the end of its road. Perhaps the world economy may not be able to restore productivity growth, or perhaps limits to development have been reached. Or is the crisis a stimulus to move a long-gestating new economic culture from the margins to center stage? This might point to a future of vitality from smaller-scale businesses, greater environmental concern, and efforts to organize economic activity on bases other than capital accumulation.[11]

In sum, the contemporary crisis is large-scale and deep. There is a good chance that it will be part of a transformation in basic social and economic institutions. But the crisis is a historical event, not an event in some natural system (no matter how commonly the economy is discussed as though it were a natural system). It was made by human actions and will be made worse or better by other actions, including those of governments. What it means historically will depend in part on what is done now. And what we do will depend on how we understand the crisis.

The Pivotal 1970s

To understand the current crisis—all the intersecting current crises—it is indispensable to attend to roots in the 1970s. The specific responses made then to earlier crises shaped both intervening years and the crisis today. The 1970s saw the deepest recession between the 1930s and the present day. This came at the end of a remarkable postwar boom that brought expanding demand through the 1960s. The 1970s crises can be understood partly as a matter of business cycles, thus, but at the same time, they reveal the limits of that understanding. The postwar expansion was much more than just an economic expansion. To reduce it to a single indicator of growth in any aggregate economic measure is to miss the shift from a phase in which material production and distribution was ascendant to one in which finance was ascendant.[12] There have been previous phases of financialization over the history of global capitalism, and there may be more to come, but the one that took off in the 1970s is the largest and most transformative so far.

During the postwar boom, there was an enormous expansion in both state provision of services—like education and health care—and private-market provision of consumer goods. The middle class grew in numbers in Europe, America, and elsewhere, while, at the same time, middle-class consumption rose as cars, refrigerators, and televisions—and, for that matter, college degrees—became increasingly standard. Pressures for more egalitarian, or at least wider, distribution of wealth were prominent. There was an expansion not just in government services but also in the proportion of the population covered by private pensions and provisions for long-term corporate employment.

Decolonization was a central feature of international affairs during this period. This was of course marked by conflict—in Congo, in Algeria, and in Vietnam, where Americans took over when French colonial power failed in the 1950s. But decolonization also brought high hopes and substantial growth in some colonial and postcolonial economies. Colonial powers sometimes adopted pro-development strategies anticipating the transition away from colonial rule. After independence, a variety of the world's richer countries mounted substantial efforts to help postcolonial countries grow. Such efforts had both idealistic dimensions as part of a project of global modernization and more cynical motivations as expanding markets offered supplies of valued resources, potential consumers for the products of industrialized countries, and (at least in theory) bulwarks against the spread of communism.

Unilinear models of development in fact proved problematic, not least because newly independent countries struggled to make their way in a world where richer and more powerful countries dominated many markets. The Cold War itself was expensive with its demand for military hardware, even if this yielded economically productive spinoffs. Residual empire became a significant economic cost. Military engagements lost their patina of glory. Retaining colonies became a challenge to political self-understanding as participatory democracy became more clearly normative. Though America's Vietnam War was neo-imperialist rather than directly colonial like France's, it fits a similar model. It was enormously expensive and paid for largely by debt. It was costly in lives and undermined national solidarity and self-confidence for decades.[13]

By the 1960s, there was substantial and open discontent. A variety of social movements challenged the legitimacy of the institutional arrangements that had reconciled capitalism, democracy, and the Cold War in wealthy Western countries. Children raised amid consumerist expansion expressed discontent with the institutional arrangements, the cultural conformity, and the channeling of personal desire that supported it. The radicalism of the 1960s was sometimes Marxist and redistributionist, sometimes neo-Romantic and focused on self-expression. But in each case, it took not just corporate capitalism but the existing state to be an authoritarian enemy. So basic have right-wing attacks on the welfare state become that it takes an effort now to recall that many earlier criticisms came from the left.

This set the context for crisis in the 1970s.[14] The decade began amid a peaking of the so-called 1960s protest, linking the counterculture of rich countries to broader anti-imperialism.[15] In one of the most symbolically resonant episodes, Chile elected Salvador Allende and a largely socialist coalition government in 1970. Its policies of nationalization and other economic reforms brought sharp US opposition, intervention, and eventually a coup. Post-coup Chile would actually provide a setting for experimenting with neoliberal government as the famous "Chicago Boys" designed policies to maximize reliance on markets and private property rather than public delivery of social services. The Chilean experiments informed the later and larger projects of Margaret Thatcher and Ronald Reagan. That they were aided by a military government is a reminder of the extent to which neoliberalism generally has been imposed by government action even when leaders declared themselves hostile to government economic intervention.

Simultaneously, there was turmoil in exchange rates after the United States pulled out of the Bretton Woods Accord in 1971. Among its many effects, this caused the dollar to depreciate and revenues of oil producers to decline. It thus helped to pave the way for OPEC production controls and spiking oil prices—the most immediate cause of the 1973–75 recession. But then so did the Yom Kippur War of 1973, an inflection point in the ongoing entanglement of energy prices in politics and a reminder of the impossibility of separating economics from politics more generally.

The Vietnam War dragged on expensively, financed more by debt than explicit budget allocations even as it became more unpopular. Britain fought Argentina in a war over its continued colonial control of the Malvinas, or Falkland, Islands. International tensions perhaps peaked with the Iranian Revolution of 1979. Particularly severe in the United Kingdom and the United States, the 1973–75 recession brought drops of several percentage points in GDP and double-digit unemployment in many industrial countries—even while inflation soared—and left growth rates low for several years.

The disillusionment born from these factors helped bring Margaret Thatcher and then Ronald Reagan to power and usher in the era of neoliberalism. Whether in Chile or Britain or America, neoliberalism meant an effort to assert the primacy of private property against public regulation and as the sole basis for distributing goods and services, rejecting most state support. Privatization of government assets played a role in some countries (like the United Kingdom), as it would again in the former Soviet Union. There was also a concerted effort to break trade-union power.

A long campaign by followers of Friedrich von Hayek and Milton Friedman began to bear fruit in shifting public opinion as well as government policy. By 1986, the arbitrageur Ivan Boesky was able to give a speech at Berkeley praising greed.[16] Before long, Boesky was in prison, convicted of insider trading. But his huge if ill-gotten wealth as well as his view that greed was good became part of popular culture—along with similar views and behavior by the "junk-bond king" Michael Milken (who also went to prison after Boesky informed on him) and the corporate raider Carl Icahn. The three informed the fictional character of Gordon Gekko from the 1987 movie *Wall Street*, which at once popularized and satirized the phrase "greed is good."[17] Over the next twenty years, both the manifestations of greed and the size of the fortunes acquired would become even more dramatic.

The era of neoliberal ascendancy was also an era of increasing reliance on finance as the source of profits in the capitalist world.[18] This affected international markets as well as domestic capitalism. Lending to developing countries helped to precipitate its own crisis of sovereign debt and brutal "structural adjustment" by the 1980s. State debt played an important role in richer countries as well, but so did the less commonly emphasized massive increase of private debt. Rates of leverage went up on all sorts of assets. And the development of new financial instruments and accounting practices took off. In 1973, Fischer Black and Myron Scholes published their famous approach to pricing derivatives.[19] Aided by Robert C. Merton's improvement of the mathematics, this initiated a wave of expansion in hedge funds, derivatives trading, and the use of algorithms for more or less automated trading—all key factors in the eventual crisis of 2008 (and also foreshadowed in earlier crises).[20]

The turn to finance had partly to do with declining profits in manufacturing. In a range of industries, corporations responded by demanding that workers take cuts in compensation, introducing new technologies, insisting that governments provide tax breaks or outright subsidies, and/or relocating manufacturing to other countries. Sometimes relocation came even after corporations had benefited from subsidies and wage cuts, in defiance of commitments to stay put. Neoliberal governments aided corporations in breaking the power of unions to resist these changes.

These are among the reasons why this era of financialization was one of intensified inequality in many countries. In the United States, the share of income going to the top 10 percent of the population fell dramatically during World War II and stayed relatively low (less than 35 percent) until the late 1970s, when it started climbing again, reaching prewar levels by the 1990s and just before the 2008 crash matching the level it had touched before the 1929 crash. Of course other factors were also at work, including not least dramatically increased rewards to investors, top executives, and other beneficiaries of financialization—like the investment bank employees who scandalized many with their annual bonuses of tens or hundreds of millions of dollars, even after their firms needed government bailouts.[21]

Corporations were pushed along in their pursuit of short-term profits by raiders like Icahn who insisted that corporations had no purpose other than delivering increasing value to their shareholders. In other words, they owed nothing to local or national communities, workers or managers, suppliers or customers. These were not legitimate stakeholders, the apostles of shareholder value argued, but rather simply means for delivering shareholders higher returns on their investments. When returns were not high enough fast enough, the corporation could be made the object of an internal fight for control or an external purchase. The profitability of corporations was judged on ever-shorter time frames. They were subject to constant control by capital markets—if they weren't bought and sold outright or broken up to realize greater profits from selling their pieces, they were nonetheless threatened by the potential that capital for their operations would become more expensive if their stock price dropped or their bond rating dipped. Many began to eliminate pensions even while they took to paying their top executives more in bonuses tied to short-term indicators of profit than they did in actual salary.

Bigger profits began to be made in trading than in making things. The trade could be currency arbitrage, or loans at high interest rates (like junk bonds, but also personal credit cards), or speculation in capital markets. But the key was that lending and generally moving money around supplanted investments in long-term production as a source of profits for many in rich countries. A partial exception to this was the role of venture capital in financing new technological developments and product innovations—most prominently in microelectronics, computing, and communications. Here (as in biotechnology and a few other cases) the availability of large amounts of capital did facilitate the creation of very valuable new technologies. But this was not a rational process driven straightforwardly by proven technological promise. It was dependent on the potential for financial profits *before* companies proved themselves profitable. A venture capitalist or a speculator invested not just on the basis of a good business plan but on the expectation that he could sell his stake at a profit before the business was really tested by the market.

This is why, despite the genuine achievements of the microelectronics and IT industries, there was a dot-com bubble at the end of the last century. Venture capitalists backed start-ups with varying degrees of genuine promise. Together with investment banks, they helped these raise capital through offering stock to a wider range of investors (generally through initial public offerings—IPOs). Some of these investors were in fact speculators who bid up the stock on its first offering only to dump it later. And when too much pumping up and too much dumping happened too fast—as in 2000—the bubble burst. The NASDAQ composite index of high-tech and growth stocks peaked at $5,048 in March 2000, only to fall to a little over $1,000 by 2002. In some cases, the very bubble helped companies—and technologies—get off the ground that might never have made it were investing more rational.[22] But for every Google that became enduringly profitable, there were hundreds of other corporations that existed only fleetingly.

Bubbles are characteristic features of finance-driven markets, and since the 1970s, finance has been very much ascendant. Essentially a bubble means rapid growth in the value of financial assets without strong foundations in the underlying economy or actual business performance. Bubbles can finance technological innovation. But this is precisely because they mobilize capital beyond what is "rational" in terms of medium-term productivity growth or sustainable profits. Bubbles typically involve speculation, dangerous debt leverage, and accordingly, as the metaphor suggests, a propensity to burst.

The Long Bubble

Finance was already important in the 1960s, of course, but it really became dominant as recovery from the 1970s recession was based on financing growth with credit and extracting profits through financial instruments and speculation rather than material production.[23] Inside the world's rich countries, it involved growth in wealth without major increases in material production. It involved heightened inequality as that wealth was heavily concentrated and there was a decline in middle- and working-class shares of economic proceeds. It also involved cutbacks in a range of public services—especially in recurrent crises, but also even while growth continued, often in the name of "competitiveness." A "good business environment" came to mean one where taxes were low (and more and more often where governments exempted businesses from taxes). This meant that while aggregate financial statistics frequently suggested growth during the bubble years, there was actually a widespread pattern of underconsumption and underfunding of "social reproduction" (education, health, and in general, the conditions of life for future generations and thus also of labor for future capitalist enterprise).[24]

At the same time, finance was more and more globally integrated. While movements of workers and goods are important to globalization, it is in fact movements of money that became most instantaneous and friction-free. The results were sometimes disastrous for developing countries—as in the 1997 currency crisis, especially in Southeast Asia. But this also created the conditions for some of the world's poorer countries to parlay low-cost manufacturing, low levels of domestic consumption, and high savings or re-investment rates into sustained growth—and growth based on material production, not only finance.

In a sense, finance-driven growth since the 1970s has been one long bubble, with several smaller bubbles along the way. Kevin Philips calls this a "multibubble" since, of course, it was not simply a long smooth trend, but repeated cycles of boom and bust.[25] The United States saw three speculative binges, in 1984–89, 1996–2000, and 2003–7. Each created its own specific patterns of excess, corruption, and misjudgment and gave way to sharp "corrections" in financial markets. In each case, the Federal Reserve stepped in to cut interest rates close to zero, reinflating the depressed markets to the advantage of some individuals and firms but not of either the majority of the population nor the economy as a whole. Temporal patterns and institutional specifics differed in other countries, though in general, both the bubbles and the crises grew more tightly integrated as trade generally and financial flows specifically intensified interconnections in the global economy.

The long bubble was shaped by massive expansions both of personal and public debt and of consumption financed by this debt, especially in the twentieth century's rich countries. It was shaped also by extension of markets to a global scale, including formerly communist countries, by projects of privatization of state assets and deregulation of private economic activity, and by an intensification of inequality, both within the world's richer countries and globally. And it was shaped also by a long neoliberal campaign against government regulation, trade unions, public scrutiny of business practices, and broader views of corporations as having multiple stakeholders from employees to local communities (as well as customers, suppliers, and the "public"). The campaign favored free exercise of private-property rights against all restrictions, a theme manifested not just in resistance to regulation but in the reduction of the business corporation itself to a commodity to be bought and sold in pursuit of short-term "shareholder value."

Obviously there is much more to this story. The termination of the Soviet Union ended the Cold War, giving freer reign to capitalist globalization and introducing new sources of energy and cash into the capitalist world system. This was linked to a Westward reorientation in most of eastern Europe.[26] Joining the EU brought uneven benefits, especially as rapid growth shifted to financial crisis, but countries with significant manufacturing capacity fared relatively well. The period saw not just accelerated trade and financialization but huge flows of migrants (many of them not simply moving one way but relying on easier travel and communications to maintain strong connections within global diasporas).[27] The information technology and communications revolution that helped make this possible was influential in countless other ways.[28] And of course, not only were there "internal" crises within this finance-driven expansion, there were "exogenous" shocks, not least the attacks of September 11, 2001. These in turn brought new wars as a response and new borrowing to finance them.[29] And manifestly, politics and economics were not the whole story. For example, the September 11 attacks brought attention to an international renewal of politicized religion that had in fact long been underway.[30] The very economic bubble had encouraged a rosier view of continuous and continuously benign globalization than was warranted.

The dynamics of bubbles, and more generally boom-bust cycles, are well-enough known that at one level each new instance shouldn't be a surprise. In retrospect, we can see that there were advance warnings. This is certainly true in the case of the market meltdown of the last few years. So what's puzzling isn't that there are bubbles but why people are recurrently taken in by the notion that "now things are different."[31] Or again, how could neoclassical and some other versions of economics persist so long in models based on representative rational actors, smooth curves, and anticipations of unproblematic long-term growth? And were traders and managers on Wall Street really convinced by all the hype about new capacities to manage risk, or did they actually know the crash was coming but get taken in by the notion that they were so smart they could time getting out better than most did? Certainly one feature of the bubble years was drawing an array of the brightest students at top universities to work in investment banking, enculturating them in a world of playing late-night poker games, celebrating risk, denigrating risk management and regulation, and perpetuating the satisfying notion that they were not only brainy enough to deserve absurd fortunes for minimally productive activity but bright enough to know when to get out of the Ponzi scheme.[32]

Then there is also the question of why democratic governments ostensibly concerned about the welfare of their citizens and the vitality of national economies did not intervene directly to support either but instead to bail out the investment industry. This is a matter partly of the success of the long campaign to make neoliberalism common sense and partly of the campaign donations and other forms of pressure exerted by financial interests. Throughout the twenty years leading up to 2008, for example, the finance industry spent millions and worked hard to get politicians to reduce regulation.

The long bubble of the last thirty-five years also wove together deepening structural problems in rich economies and impressive growth enabling some of the world's poorer and previously "semi-peripheral" countries to move into positions of sustained economic growth and growing global leverage. Thus the US combination of massive borrowing, disinvestment from materially productive industry at home, and industrial investment where labor costs were cheaper (and environmental and other regulations less demanding) helped create the conditions for China to transform its economy, enjoy double-digit economic growth, and sell its goods to America and other rich economies, financing their purchases by buying their debt. Europe became a large-scale net borrower somewhat later than the United States, but with similar effects. And if those effects were overwhelmingly negative in the countries living beyond their means and securing profits in finance rather than industry, the picture was different in Brazil, China, India, and other countries, which had the chance to begin their own equivalents to the West's postwar boom, with cars, refrigerators, televisions, and higher education again becoming standard.

China is the most spectacular of several stories of countries previously in marginal positions in global capitalism enjoying impressive growth. At the beginning of the bubble years, attention was focused on Japan, which became a global investment force before itself entering into a long period of stagnation, its so-called lost decade. Brazil, India, and South Korea have long been semi-peripheral in the world economy but now may be moving into core positions. Indonesia, Malaysia, Mexico, Turkey, and others are not far behind. One central feature of this pattern is that these countries have flourished by flouting the so-called Washington Consensus of mainstream economists and advisors from rich countries and global institutions like the World Bank. Notably, although their rise is part of capitalist globalization, it has been shaped by strong state leadership and often by a combination of state financing and tariff barriers quite at odds with neoliberal economic ideology.[33] It has also generally included an emphasis on material production precisely at a time when many rich countries were reducing their industrial capacity.[34] This very success joins with the financial crisis to challenge dominant perspectives on economic growth and development.[35]

Not least among the views needing challenge is the notion that new technologies have ushered in a postindustrial era. Along with the idea of a "knowledge society," this helped to frame an image of benign transition in Europe or America away from manufacturing industries with their pollution and manual labor toward a future of office and service work in which intellectual capacities would be critical.[36] Not only did this underestimate deskilling and productivity pressures in office and service work, it overstated the ease of transition. Control of knowledge was indeed important, but abandoning industrial production proved deeply problematic. The citizens of rich countries didn't stop wanting physical goods, after all. They just stopped making them. This exported economic leverage to developing countries, eliminated large classes of jobs for Americans and Europeans, and became a basis for growing debt. Since many of these were unionized and well-paid jobs, this offered advantages to capital. But it was a strategy pursued in the era of financial ascendancy, not a simple response to technological change. And it had a range of problematic repercussions, including increasing dependence on fossil fuel as goods were shipped around the world and the undermining of local communities that lost their economic bases, career structures that enabled people to take long-term perspectives on their lives, and social solidarity generally.

From Economic Globalization to Geopolitics

The bubble years thus transformed not just economies but global power relations. The United States gradually lost the ability to maintain global economic and political order (though many were slow to see this, partly because, even while it was overstretched, it became the world's one superpower with the demise of the USSR). Though the United States remains the world's strongest political and economic power, it has lost a good deal of its hegemony.[37] It is severely economically indebted and militarily overstretched. But no other global power has stepped up to replace the United States (and the genuinely remarkable growth in China still does not support the notion that it is close to doing so).[38] There may yet be a renewal of US growth and creative energy—though this depends on not just meeting global challenges but overcoming domestic obstacles, like political gridlock, financial troubles at every level of government, and a dispiriting lack of a sense of public purpose. In any case, as a declining hegemon, the United States has choices about whether to be belligerent or to play a more constructive role in shaping a new, more multilateral world order.

This reorganization of global power relations is a reflection not just of economic change, of course, but also of the instability introduced into world affairs by the crisis and the end of the Soviet Union, which shook one major world region deeply and affected states and struggles around the globe. It eliminated the only large-scale competitor to the global expansion of capitalism. And it was not unrelated to the long bubble, driven as it was partly by an arms race itself dependent on massive spending by the American government under Ronald Reagan and supported by one of the boom cycles in the multibubble (the one that ended with the Savings and Loan crisis that started in 1986). The collapse of the USSR created the occasion for the privatization of state assets at prices that amounted to near theft—or more directly by actual theft. It also brought Russian natural resources, especially energy resources, into the global economy, mitigating high energy costs. Much Russian capital was invested abroad, further inflating bubbles of the last twenty years. Yet Russia itself may or may not achieve the industrial and technology-driven growth necessary to escape the status of regional power and supplier of natural resources to the global economy.[39] And Russia has become a leading example of the disconnection between accumulation of capital and wealth and projects of national development, leading a worldwide trend toward use of offshore investments and shelters to protect capital from absorption in the very countries where it is produced.[40]

Global instability was increased by the combination of assertions of Islamic militancy, sometimes with terrorist tactics, and the choice of the United States and a few allies to respond with war. The decision by President Bush to brand the attacks of September 11, 2001, acts of war and to respond with a "war on terror" actually dignified the terrorist action more than it deserved. Previously, terrorist actions were generally treated as crimes, and the leaders of groups (or networks) like al Qaeda were not treated as though they were heads of states, even rogue states. But it is true that non-state conflicts have been growing, especially since the end of the Cold War. And in any case, the United States and a handful of allies responded to the 9/11 attacks with an invasion of Afghanistan and an outright war of regime change and occupation in Iraq. This added to instability by increasing anti-American and radical Islamist mobilizations, by undermining American credibility (both because it emerged that the US administration had used deceit to justify its invasion of Iraq and because the United States managed the war and occupation badly), and by driving the US economy much deeper into debt.

In any case, it seems clear that we are entering a period with many major powers, none fully dominant. In addition to the United States, Europe clearly belongs on the list (though it is hard to say with what balance between individual European countries and EU cohesion).[41] China and India are major rising powers, the former much stronger than the latter. Russia remains a significant player on the world stage as well as a dominant one in its region. And a range of other countries may be among the central participants in global power sharing; Brazil, Iran, South Africa, and Turkey have among the best prospects. But this doesn't tell us to what extent global power will be organized in multilateral cooperation or how much in multipolar rivalry. Nor does it indicate how much will be organized globally and how much regionally. Global institutions remain important, though criticism of the World Bank and the IMF is widespread—even after they have undertaken some reform—and the United Nations is in a weakened condition in much need of reform, clarification of its mission, and more consistent support from member states.

Regional blocs are significant. Contrary to crude images of globalization as breaking down all differentiation of the world, it has actually encouraged regional integration—most prominently in the European Union, but in different ways in other parts of the world. The African Union is proving more effective than its predecessor, and economic integration in that region is growing, though with South Africa as a budding regional hegemon. The Arab League has had only modest successes, but Al Jazeera television has shaped a shared political consciousness throughout the Arab world (to the regret of several dictators). Latin American integration is challenged by tensions between more "liberal" and more "socialist" governments but is nonetheless growing. There are questions as to whether Mexico has cast its lot more with North America than with Latin America, to be sure, and indeed questions at the broader level of whether integration is more a matter of hemispheric proximity, migration, and investment than a matter of language and culture.

Asia is increasingly knit together across the lines of such old subregional divisions as East, Southeast, South, and Central. Of course, China's neighbors are at once drawn into its political and economic orbit and resistant to domination by its regional hegemony. Many are making efforts to maintain more distant alliances—not least with the United States—as counterbalances. At the same time, old geopolitical fault lines have re-emerged and are attracting attention. In Northeast Asia, the North Korean remnant of the Cold War may attract the most attention, but eyes are also on the division between China and Taiwan, the question of oil and maritime rights involving contested claims to various islands, and the Amur River frontier between Russia and China. In Central Asia, a cluster of newly independent states sits amid the larger powers of Iran, Russia, and Turkey and straddles the boundaries of the Muslim and Christian worlds. And the volatile conflicts on the Indian subcontinent are not just matters of religious division but of geopolitics. What happens in Afghanistan shapes Pakistan's regional influence. Though India is by far the region's strongest power, it feels itself encircled by enemies or at least unreliable allies. And across the continent, the influence of political Islam is influential and often intertwined with national and regional struggles.

This is not just a matter of the developing world. Geopolitics and issues like uneven development and migration remain powerful in Europe. While the division of East and West within Europe has been redrawn, it has not disappeared. Even with the successes of the European Union, there are substantial internal divisions, as can be seen in German anxiety about being called on to support "profligate" Greeks. More generally, in the context of financial crisis, the distance between richer and poorer European countries seems large; so too the distance between those with deep macroeconomic imbalances—Britain included, not just the southern Europeans with their conventionally weaker economies—and those without. Europeans are rattled thus by some of the implications of European unity. But they seem to be rattled even more by immigration and by Islam.

Religion has become a significant factor in global political economy, surprising theorists who had thought it destined to fade with modernization.[42] The patterns are distinct in the cases of Christianity, the world's fastest growing religion, and Islam, the one attracting the most new attention in politics.

Christianity is changing from within, as for example, Latin American Catholics convert to Pentacostalism, sometimes in the very process of migrating to the United States. Pentacostalism is also a major factor in Africa, producing both converts to Christianity and revitalizations and reorientations for long-time Christians (and those who had drifted in and out of more loosely defined religious allegiances). And it is not a tiny movement in the former USSR. But Christianity is also attracting new converts in Asia, in uncertain but apparently large numbers. Pentacostalism offers among other things a mode of adaptation to new economic circumstances, a religious organization of personal self-discipline, entrepreneurial motivation, and connections to potentially helpful business associates.[43]

Islam is also growing by new conversions, though not to the same extent. The renewal of Islam is largely a matter of revitalization of already Muslim populations and the promulgation of new ideologies. But Islam's geographic distribution in the world is changing, largely by patterns of migration. This has generated the most publicized response in Europe, where panic over the prominence of Islam has been widespread. It has challenged both the secular and the democratic traditions of France, Germany, and perhaps most problematically, the Netherlands, but it has also become a factor in the politics of Britain, Spain, and other countries. Anxiety over Islam has impeded the seemingly logical incorporation of Turkey into the EU. This in turn has altered the geopolitics of central Asia and the Middle East. At the same time, Islam is itself a global ecumene, linking populations (and polities) from the Middle East to Indonesia and China's northwest, the Mediterranean to Central Asia, and the Indian Ocean.

Anxiety over extremism (a term often deployed in the West as though it applied only to Islam) has made Islam a much bigger issue in global political economy since the 1990s and especially 2001. There is of course a reality to the threat of terrorist attacks throughout the world as there is to the role of Islam in more geographically specific mobilizations in Afghanistan, Central Asia, or the Middle East. But just as clearly, "extremism" is as much an issue on the Israeli side of the most basic of the Middle Eastern conflicts. And extremism is hardly foreign to Christianity.

Religion is usually only one dimension in large-scale conflicts or even narrower phenomena like terrorist acts—and seldom the sole and decisive dimension. But religion is prominent in conflicts that are able to draw great powers into response. This is as true of China in Xinjiang, Russia in Chechnya, and India internally and in relation to Pakistan as it is in regard to the United States or Europe. It appears as a global dimension of conflicts that are also shaped by a variety of local circumstances, including national or ethnic inequalities and discriminations. It shapes lines of solidarity and connection that may be influential in a reorganizing post-crisis world.

Inequality and Social Welfare

Raising issues of geopolitics is already a reminder that globalization is poorly described as simply the spreading of market relations everywhere. The political and the economic are always entwined. If there are new technologies for transcending distance in some relationships, there are still conflicts at borders and frontiers, alliances along lines of ethnic or religious solidarity, and trade relations that still depend on physical copresence. Equally, the political and economic are always influenced by social conditions and social demands. It is an irony that many of the most significant factors shaping possible futures in a post-financial-crisis world will not be specifically financial. The crisis disrupted the dominance of finance. Much now depends on the way in which material production is organized and pursued. This may be part of a continued pattern of economic growth in Asia and parts of Latin America and perhaps extended to Africa. It is likely to include struggles over how much to limit or redirect growth in response to environmental challenges—not just climate change but competition for resources. Both the economics and the politics of these possible futures will be shaped by patterns of inequality and problems of providing for social reproduction—that is, the continued production of knowledge and skills, and health and general welfare, alongside the production of things.

The acute financial crisis draws attention not just to frailties of the boom-bust economy of intensified capitalist globalization but to massive inequalities amid apparent plenty—which might be considered a crisis in itself were it not for the possibility that people could live with it and suffer under it indefinitely.[44] It reveals weaknesses in some of the world's richest countries while development in others rushes ahead. A crisis of solidarity appears inside developed countries, where inequality has returned to levels not seen since regulatory and welfare states began to end the era of robber barons, and on a global scale, as development exacerbates inequalities even while it whets appetites in rapidly growing countries like China and India, creates a new rich class in Russia while prosperity escapes the majority, and divides regions of rapid growth from those of limited opportunities. And if the old developmental hope remains alive that growth will reach everyone and bring a better life, it is now challenged by new awareness of the limits of natural resources, the degradations existing patterns of development wreak on the environment, and the recurrent devastations of disasters produced by the interaction of technologies and ecologies.[45]

At the same time, crisis of governance is manifested in weak financial regulation but also in a host of challenges to the capacities of welfare states, from the rapidity of flows across borders to the ability of capitalist corporations to extract public resources to compensate reckless risk-taking and fund new private projects in the name of recovery as a public good. These challenge the ability to operationalize both domestic and multinational policy.[46] A crisis of security is dramatized by spectacular acts of violence, the ubiquity of small-scale wars, and the vulnerability of civilian populations. The costs of conflict and the pursuit of security are mounting and include not just financial costs but widespread surveillance and impingements on civil liberties, which are made no less striking by the fact that majorities acquiesce in many of them.[47]

Crises at the largest scale of social relations and human relations to nature intersect with challenges in personal life. In rich countries, welfare states and large corporations are less often providing shelter from risks and the context for planning personal life.[48] Neither education nor work experience guarantees employment. Where previous generations faced personal setbacks and social upheavals with confidence that their children would enjoy better opportunities, expectations for the future have become gloomier. While some seek different orientations in spiritual life or more ecologically sustainable lifestyles, most remain embedded in cultures of mass consumption even though they engage these with anxiety as much as happiness. Social support systems are also weakened, from families sometimes traumatized by divorce and often simply dispersed, to communities upset by the loss of major employers and pressures for members to relocate, sacrificing social capital and personal friendships.

This pattern has been seen repeatedly since the 1970s. It has been evident, for example, in the decline of so-called Rust Belt cities in the United States, which first drew attention in the 1970s but has not abated since. And it was evident in the massive increase in the number of Americans without health-care benefits—a reflection among other things of the decline of secure long-term employment in relatively large, relatively stable businesses. Each of these demonstrated, even in the world's richest country, the collateral damage associated with neoliberalism. In business, this meant treating firms not as long-term economic producers but as always implicitly up for sale. Costs then needed to be cut to maximize the immediate market value of the firm, not its potential economic contributions. Likewise, there has been a shift toward trying to price all sorts of public assets—from transportation services to national parks. This amounts to denying the importance of public goods in favor of a calculus of how much those assets are worth to private purchasers or investors. Public universities, for example, grew largely on the premise that it was in the public interest to have educated citizens and professionals and for a wide cross section of the population to have opportunities for self-development and upward mobility. Increasingly, they have been pressed to charge fees based on their private value as career-promoting assets for individual students. This is not uniquely an American pattern. If anything it is more severe in Britain.

Macroeconomic problems arguably impose austerity policies, but there is still an element of power and choice. State finance has become a major political as well as economic issue. In cases like Greece, Ireland, and Portugal, it is clear that choices are shaped not only by market forces and domestic political power but also by pressure from other EU member states. Like Argentina a decade earlier, Greece could have resisted the restructuring imposed by the IMF and its European partners. The Argentine example suggests that this might not have been a disaster. But be that as it may, it is important to recognize that such decisions are never purely economic. There are always questions of domestic politics, of international relations (like the pressure on Greece from the rest of Europe), and of the ways in which capitalist, corporate interests are themselves translated into power. To be sure, many state budgets are unsustainable. But they are unsustainable in a context and with a history—not just in some absolute sense. While some European welfare states have buffered their citizens until recently, cutbacks are now the widespread norm; some are draconian indeed. This is shaping a new structure of inequality. Major social institutions are now accessible largely only to those who can pay.

Cutbacks are part of a new austerity in rich countries, but inequality can be sharp and the public sector inadequate in developing countries as well. User fees limit access to schools, hospitals, and other potentially public resources. In urban areas throughout the world, large populations live in slums and spontaneous settlements with no clean water or waste-treatment facilities or other public infrastructures—yet cheek by jowl with richer fellow citizens, who can not only buy more private services but also benefit from better provision of public infrastructure. Gated communities and private security are increasingly widespread. So are inequalities in police protection. Rich and developing countries share versions of the same urban pattern.

This is tied to a new insecurity. Chinese citizens, for example, trade the security of lifelong membership in a *danwei*, which was at once work unit and local community, for previously unimaginable opportunities but also unsettling risks faced with weakened social supports. While many benefit, especially in economic terms, many others also suffer as somewhat better-paid jobs prove intensely demanding even while they fall short of offering significant lifestyle improvements and as labor migration cuts them off from families and friends. Still, hope for a better future remains widespread in China. Parents believe that investments in children can pay off in future labor markets and other opportunities and that enduring current stresses may mean that their grandchildren face fewer ones. Such hopes are weaker in those former communist countries where increased personal freedom has not been matched by rapid rates of growth and the sense of lost security more often outweighs the sense of increased opportunities. This is not just an issue in Albania, Bulgaria, Romania, Russia, and other postcommunist countries. It is a widespread pattern throughout the world. Hopes for the future seem deferred. This informs populist anger in the United States and Europe. It informs both the so-called new nationalisms of Latin America and increasing disillusionment with them. In Fernando Coronil's telling phrase, "while there is an intense desire to change the nation, it is not clear *what* to desire."[49] People strain to connect their investments in the struggles of everyday life, providing for their families, to prospects for a better future.

In much of the world, poverty remains endemic. It is not just an issue of "traditional" rural areas but of the ways in which cities are themselves developing. These bring new and different insecurities, risks of violence, and personal indignities. For some the rural to urban transition does come with hope for economic mobility and feels like choice, not forced migration. Hope is sometimes channeled into entrepreneurship, education, and employment, often aided by religious movements with a gospel of discipline and self-help. A few countries, like Brazil, have managed to link major improvements in the conditions of social life with economic growth. This means increasing the sense parents have that their children may improve their lives through education and employment. But for many, hope is more like the distant fantasy of a lottery ticket and the examples of winners come as much from successful criminals as film stars or football heroes and, in any case, don't translate readily into concrete next steps of improved incomes or family and community life. In such contexts, diseases like HIV/AIDS and natural disasters from floods to famines often appear as more deadly negative lotteries (even though patterns of social organization and failures of social policy may lie behind each).

Upheaval in global political economy is shifting the meaning of categories like rich countries, rapidly developing, and poor, though not overnight. While China and India are each home to rapidly growing middle classes and dozens of newly minted billionaires, both also have large populations of very poor citizens. In each, prosperity is very unevenly distributed. Nonetheless, rapid development is moving them increasingly into core positions in the modern world system. The scale and momentum of their economies suggest that they will be among global leaders. It is possible that during the coming decades they will experience something akin to the industrial growth and strengthening of service provision that Europe and North America experienced during the post–World War II boom. This may exacerbate global environmental challenges, but it holds prospects for continued dramatic material gains within some of the world's largest economies.

Conversely, Russia faces a future pattern of development limited by its dependence on the sale of natural resources—especially gas and oil. This has created wealth, though so far the benefits have been concentrated in a narrow elite and the nature of the wealth has been conducive to corruption. For Russia to enjoy more balanced growth would require a concerted effort to improve its productive industries—which have languished since the days of the USSR. This is particularly a challenge given the head start enjoyed by Brazil, China, India, South Korea, and other stronger productive centers. Russia previously enjoyed an advantage in human capital thanks to strong Soviet programs of education and training. This has been eroded by brain drain, however, and by a failure of investment only now being partially reversed. In varying degrees, Russia's situation is shared by eastern European countries that also face semi-peripheral futures. Many have the advantage of stronger industrial production thanks partly to more modernization in recent decades, and also to membership in the EU. They do not, however, have the wealth of natural resources that makes Russia potentially a world leader if it can manage greater economic balance.[50]

Natural-resource dependence is everywhere a mixed blessing. Several Latin American countries have made oil and mineral wealth the basis for substantial social programs. Whether this will become a successful strategy for long-term development, in Venezuela, for example, is unclear. Many are currently prosperous because of the sale of agricultural and mineral products to more industrial countries, notably China. But counting on agriculture and extraction alone is a limiting strategy. On such bases Argentina was one of the world's richest countries in the early twentieth century but did not translate this into productivity growth or national wealth. In recent years, Brazil has done a better job than most others of integrating natural-resource wealth with productive industry.

In Africa too a number of currently poor countries hope that rich endowments of natural resources will become bases for transformative economic development. In the past, however, those natural resources have too often turned into a curse leading to predatory states, warlords who turn ethnic differences into criminal conflicts, and long-term dependence on foreign powers intent on buying natural resources at the lowest possible prices.[51] Natural-resource trade, legal and illegal, is implicated even in humanitarian crises, like those of Congo, Liberia, and Sudan. Strong states operating relatively honest and competent bureaucracies seem to be the main vehicle for resisting this fate.

It is not only the rich countries but also the rapidly developing that demand the natural resources of others—energy resources first and foremost but also timber and minerals vital to new technologies. There seems no end to the demand, though clearly there are limits to the supply, which only makes conflicts more likely. While these may bring direct combat between major consuming powers, it is likely the conflicts will continue to be played out nearer the sites of production than the sites of consumption, claiming the lives of the poor, harnessing states that might aid in development to the tasks of extraction, reifying the fault lines of region, religion, and ethnicity into bases for mobilization, and encouraging the leaders of liberation fronts and resistance movements to degenerate into the bosses of armed criminal gangs.[52]

In short, for all the globalization of recent decades, the financial crisis affected the world's regions and countries very differently. They were differently situated with regard to level and kinds of industry, nature of involvement in finance, strength of government structures, natural-resource endowments, human capacities, and labor costs. The current crisis has struck especially hard at relatively rich countries. This creates opportunities for some others, but it also unsettles relations in and among regions, making for challenges and risks in the years ahead.

Some of today's rapidly developing countries will become new world powers; their citizens will enjoy growing material consumption, and their industries will benefit from the combination of imported natural resources and relatively cheap labor. Most of today's rich countries will remain rich, even if in relative decline. But few of today's poor countries will enjoy equitable economic development—at least not unless there are massive changes in the social organization of power, the cultural constructions of identity, belonging, and moral obligation, and the systemic relationships that govern the exploitation of nature and human labor-power, the distribution of wealth, and the accumulation of capital. So far, movements to change these basic patterns of inequality are weak.[53] And while attention to climate change and environmental degradation is growing, practical action is lagging behind.[54]

Conclusion

To grasp the full meaning and implications of the financial crisis, we have to go beyond its immediate precipitating factors to situate the crisis in a longer-term history and a more complex view of capitalism and global relations.

Today we face an abundance of crises. We use the word most for what has happened in financial markets, but there are also crises in domestic politics and global governance—crises of environmental degradation, refugees and forced migration, infectious disease, and war. Each creates both intellectual and practical puzzles. Each shapes what possible futures are open to us, but seizing more rather than less attractive futures depends on deepening our knowledge of what is going on and what is possible.

It is a Chinese proverb and a business adage that crises create opportunities. Perhaps it is just an opportunity to buy cheap. But sometimes it is more, the chance to shift direction. Of course it is not only crises that create opportunities. History is always open-ended. There are always ways to do things better: to invent new technologies, to transform work processes, to start or save relationships, to make money. Crises focus our attention, at least sometimes, though they can also distract and disorient us. Crises actually constrain our choices. But they also encourage us not to take the future for granted, to try to make choices, and to achieve the better among the possible futures.