

# THE CONTEMPORARY CRISIS: WHAT'S DIFFERENT THIS TIME?

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The financial crisis that began in the summer of 2007 is not the first financial crisis to occur in the past decades. In 1987 there was a world stock market crash, and in 1989-91 the savings and loan meltdown took place. The Japanese stock market collapsed in 1990, the Swedish banking system had to be nationalized in 1991, and 1994 saw the outbreak of the Mexican “tequilla crisis. 1997-98 saw crisis afflict most countries in East Asia, while in 1998 Russia defaulted on its sovereign bonds. The U.S. Federal Reserve had to organize a rescue of Long Term Capital Management rescue or risk financial chaos in 2000, the same year as the bursting of the dot.com bubble. The bankruptcies of Enron and World.com soon followed in 2001-03. What makes the present downturn different from earlier cases?

Perhaps the best way to begin is by noting some of the things that are *not* different. Most obviously, perhaps, the *greed* exhibited by the peddlers of collateralized debt obligations, credit default swaps, and other exotic financial products whose collapse in price set off the present crisis, was certainly not new, nor was the *corruption* so plainly exhibited by so many of those who rated these financial products. The *lack of effective state regulation of financial transactions*, another generally accepted causal factor, is hardly unprecedented either, just as the “*capture*” of state agencies by the very industry they were supposed to regulate has not been

unknown.<sup>1</sup> This is also not the first time a crisis has provided an *empirical disconfirmation of mainstream economic theories* proclaiming the rational efficiency of financial markets.

Numerous earlier financial crisis have also revealed that self-professed “free marketers” are happy to receive massive state aid, whatever hypocrisy this might entail. The rapidly with which a local disturbance (in this case, in a relatively small part of the U.S. financial system) became a global crisis is also not a new phenomenon. And, finally, this is hardly the first time that those who did not benefit from a speculative bubble have been forced to bear a wildly disproportionate share of its costs. In all these respects a line from an old Talking Heads song gets it just right: “Same as it ever was. Same as it ever was. Same as it ever was.”

And yet there are undoubtedly aspects of our present moment in world history that are new, and there is an emerging consensus about what they are. In the following paragraphs I shall sketch some of its main elements. In the last half of the paper I shall argue that neither the diagnosis nor the policy proposals that follow from this emerging consensus go deep enough.

First of all, no one denies the unprecedented scale of the recent financial bubbles, and the corresponding scale of the subsequent collapse, the rescue programs of governments, and the social costs imposed by the collapse and rescue programs, relative to other downswings of the last 70 years. The housing bubble of the early years of this decade was without question the greatest speculative bubble in the history of capitalism, and the debt levels associated with it were comparably gigantic.<sup>2</sup> \$44 trillion of the value of the world’s stock markets was initially

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<sup>1</sup> It is a very old story that state officials who construct a policy agenda with an industry’s interests at its heart are likely to be rewarded with high paying positions when they retire from the public sector, while those appointed to run state agencies are typically selected from the cadre of senior executives in the regulated industries. The so-called “revolving door” has been a central feature of Washington architecture. Nonetheless, even by Washington standards the extent to which financial policy has been directed by Goldman Sachs personnel both before and after the crisis is striking.

<sup>2</sup> “In absolute terms, the credit boom on top of the housing bubble was unparalleled. In America private-sector debt soared from \$22 trillion in 2000 (or the equivalent of 222% of GDP) to \$41 trillion (294% of GDP) in 2007” (“Worse Than Japan?” *Business Week*, Feb. 14, 2009, p.81).

lost. The I.M.F. estimates the total losses of financial institutions at \$4.4 trillion, \$2.7 trillion concentrated in the U.S. In the months following the outbreak of the crisis world trade declined by 10%, a faster rate of collapse than in the Great Depression. As of last April (2009), \$8,955,000,000,000 had been committed to government rescue packages in the U.S., U.K., and the Eurozone according to the I.M.F., an astounding figure that does not include Asia, where the “biggest stimulus of any region” is to be found, according to *The Economist*. A single company, the insurance giant AIG, received \$153 billion of capital injection and loans from the U.S. government, \$58b of which was immediately transferred to its clients outside the U.S. When a columnist in *Business Week* spoke of the “greatest monetary stimulus in history” this was not hyperbole.

Another unprecedented feature of the world market in our epoch is the scale of the *global imbalances* between different regions. The role of the United States in the global economy is not limited to being a site of speculative bubbles in financial assets. The U.S. has also been the consumer of first resort in the world market, with 76% of the domestic economy devoted to consumer purchases (for sake of comparison, China is at the opposite extreme at 36%) . It obviously takes quite a bit of revenues to engage simultaneously in unprecedented levels of financial speculation and consumption. Domestic income did not suffice to cover consumption levels, and domestic savings did not suffice to cover financial investment (savings in the U.S. declined throughout the period under discussion, eventually falling to zero). Nor were funds provided by trade surpluses; throughout this period the U.S. suffered trade deficits that tended to worsen over time. The mystery of how consumption and speculation could be funded on such a vast scale in these circumstances is solved by noting the massive level of capital inflows to the U.S.. Between 2001 and 2005 the U.S. absorbed 70% of net global capital flows. Never before

in the history of capitalism had the dominant state in the world system been a net debtor to the rest of the world, let alone on this scale.

If some countries are in deficit in the world market, others must be in surplus. The main source of the capital inflows to the U.S. were countries enjoying significant trade surpluses; Japan, newly industrializing countries (especially China), and oil producers. Perhaps the most striking illustration of the global imbalances between deficit and surplus nations today is China's possession of \$2.28 trillion in reserves as of September of this year, most of which in the form of U.S. Treasury bills.<sup>3</sup> These are in effect loans to the U.S. economy. Emerging countries as a group hold \$4.5 trillion in reserves.<sup>4</sup>

These loans bring both a relatively low nominal rate of return and a significant risk that even this rate will eventually be much lower in real terms due to a decline in the value of the dollar. Why would China, and numerous other countries where poverty remains a major problem, be willing to accept such an arrangement? Two reasons are regularly given in reply (a third will be introduced below). The first concerns a lesson learned in the wake of the East Asian crisis of the late 1990's, which was set off by stampedes of capital outflows. Reserves offer protection from the severe harm such stampedes can cause. Ample reserve funds also offer foreign investors a significant reason to be confident in the local economy, making it less likely stampedes will occur in the first place. Second, stockpiling reserves is an effective way to avoid the currency appreciation that significant trade surpluses would otherwise tend to set off. Currency appreciations raise the costs of exports, threatening countries that have made exports the central element of their economic development plans. Many of these countries have been willing to protect their export sectors by tying up funds in low-paying and somewhat risky

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<sup>3</sup> "Grimm Truths Obama Should Have Told Hu," Martin Wolf, *Financial Times*, Nov. 17, 2009.

<sup>4</sup> "Global Economic Imbalances," *The Economist*, Jan 24, 2009, 75.

reserves in order to prevent (or at least limit) an appreciation of their currencies. Insofar as a not insignificant portion of the money lent to the U.S. is then used to purchase their exports, the money eventually circulates back to them anyway.

There is an obvious connection between the scale of the financial bubbles in the United States and the imbalances in the global economy. The former could not have grown so insane, and the level of debt held by household and financial firms could not have become so massive, were it not for the unprecedented magnitude of the capital inflows from surplus countries.<sup>5</sup>

The United States benefitted from this arrangement, at least as measured by the expansion of domestic consumption. China also benefitted, at least as measured by growth rates that surpassed anything achieved previously in human history. Nonetheless, from the standpoint of any plausible theory of global justice something is deeply wrong with a world order in which the wealthiest country absorbs a vastly disproportionate amount of global output and net capital flows, while over a billion human beings on the planet lacked even the most minimally acceptable standard of living.

Be that as it may, this world order appears to have collapsed. One of the most obvious things that is different today in comparison to other moments of financial crises in the last decades is the extent to which political elites, economic elites, and mainstream academic theorists now proclaim publicly that extensive reforms to the present global order must be made. The degree to which there is a consensus about the general direction of the reforms is also striking. If the root of the problem lies in excessive global imbalances and an excessive level of financial speculation, then it follows that policies must be adopted that correct imbalances and discourage speculation.

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<sup>5</sup> In the first half of 2000, for example, 52% of the equity purchases that pushed the dot.com bubble to its heights came from foreign investors.

Correcting the imbalances between deficit countries and surplus countries is first and foremost a matter of adjusting the relationship between the U.S. and China. Most experts agree that consumption levels in the United States need to decline (especially with respect to imports), while exports and savings must increase. On the other hand, the domestic market in China must expand. There are signs these things are already happening. Recessionary pressures on wages, difficulties in obtaining consumer credit, and the need of households to pay off debt obligations, have lowered consumption levels in the U.S. The depreciation of the dollar has discouraged imports and encouraged exports. The domestic market in China has already expanded tremendously, due to its enormous stimulus program. If the government were to provide an expanded social safety net for its citizens, as Western observers have urged, the astoundingly high savings rate of Chinese households could decline considerably, enabling a yet greater expansion of domestic consumption. Foreign mainstream economists also insist that Chinese dollar reserves are far in excess of what is needed to provide insurance against a sudden exodus of foreign investors. There is a general consensus that they should shrink, with the revenues freed up also used to increase domestic consumption.

The International Monetary Fund's desire to find a new role in the global economy is relevant to this last proposal. In the 1980's and 90's the I.M.F. required countries suffering from stampedes of capital outflows to accept so-called "structural adjustment programs" in return for loans. Few today deny that these programs invariably led to severe and often horrific austerity in the domestic economy. The desire to avoid having to submit to the I.M.F.'s dictates has been another significant factor behind the amassing of tremendous dollar reserves in the Global South, since the greater a nation's reserves, the less likely it is that its government will ever have to go hat in hand to the Fund. There is now considerable talk within and outside the Fund of a new

approach that in which an ex ante guarantee to provide funding without conditions in the case of a sudden capital outflow would be made to all members following economic policies that were generally agreed to be “sound.” Any country receiving such a guarantee would not need to hoard immense reserves.

The consensus that financial markets need to be effectively regulated in order to avoid excessive speculation is no less strong among commentators today than the consensus that global imbalances must be corrected. The proper role of the financial sector is to serve as a means for allocating capital to firms and industries with the greatest prospect for future growth. The hypothesis that this role could be fulfilled most efficiently through the deregulation of financial markets has been refuted as conclusively as any empirical thesis can be refuted. Deregulation has instead had the perverse effect of transforming into an end-in-itself, with all too apparent negative consequences. Policies must now be implemented that return the financial sector to its proper role. Limiting the amount of leverage financial firms can take on is one example.<sup>6</sup> Measures designed to bring transparency to (if not eliminate entirely) the “shadow banking system” also fit here. With proper regulation the financial sector should be able to return to its proper task of funneling investment to sectors with the greatest growth potential in the twenty-first century, most crucially, perhaps, the sectors developing “green technologies.” Another “golden age” of capitalist development, it is asserted, is within reach. All that is required, supposedly, is the right sort of political will.

There are a number of fairly obvious problems with these proposals. There are, for example, good reasons to doubt whether the I.M.F. can change its spots. Countries in Eastern Europe have been hit the worst by the present crisis by many measures. In return for its aid the

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<sup>6</sup> **Note percentage of financial firm debt in US.** The creation of credit money that only circulates within financial circuits is a key part of the explanation of financial asset inflation.

I.M.F. is imposing all too familiar structural adjustment programs, revealing itself once again to be first and foremost a defender of the interests of global creditors rather than the vulnerable in the afflicted countries. Also, resistance to even relatively minor financial reforms has been ferocious and fairly effective thus far. As important as these sorts of issues are, I shall put them to the side here, and attempt to show why the standard account of the crisis that has been presented, and the proposals that follow from it, do not go deep enough into what is different about our present historical moment. The best way to proceed is by tracing how we got here, even if this can only be done in broad strokes.<sup>7</sup>

The secret at the heart of the global economy for the last decades is, I believe, the persistence of an overaccumulation of capital in almost every major sector of the world market, manifested in excess productive capacity relative to what markets can absorb. The lure of attaining above average profits from innovations motivates the entry of technologically advanced plants and firms into sectors. But when they do, established firms and plants do not automatically withdraw, or at least not at a rate automatically ensuring that all productive capacity in the sector is absorbed. The latter already have fixed capital investments in place that they do not want to write off entirely. Or they may be willing to write it off, and remain operating nonetheless if they can at least obtain the average rate of profit on their circulating capital. These plants and firms also possess a workforce and management with sector-specific skills, established relations with suppliers/distributors, and established relations with local governments, all of which may be difficult if not impossible to replicate in any relevant time frame if they were to withdraw from the given sector. As a result of these considerations there is a tendency for there to be overcapacity in the sector, due to an overaccumulation of fixed capital.

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<sup>7</sup> The following account rests heavily on Robert Brenner, "What is Good for Goldman Sachs is Good for America: The Origins of the Current Crisis" (2009, available at UCLA's Economic History website).

Falling rates of profit and lower rates of investment result. When this dynamic plays out in key sectors simultaneously, the result is an *overaccumulation crisis*.

In the years immediately following World War Two the overaccumulation of capital was not a worry. While the U.S. was operating at peak capacity, Europe had been bombed to the ground, as had Japan. A “golden age” of capitalist development commenced, led by rapidly expanding U.S. capitals. But by the late 1960’s/early 1970’s Europe (especially West Germany) and Japan had been rebuilt. Firms in these countries had learned how to produce steel, autos, and other major commodities more efficiently than their U.S. competitors. Major sectors of the world market began to show signs of excess productive capacity. A major depression would have devalued previous capital investments on a massive scale, eventually restoring at least some of the preconditions for a new period of extended dynamism. Another world war would have had this same effect. But no government wanted to have another depression or world war. And so numerous steps were taken to maintain profitability in conditions of overproduction in the U.S. and other countries of the global North. Three will be discussed here. Taken together they define essential features of the *neoliberal* project to which economic and political elites have been committed. Understanding the eventual consequences of these three processes will help us comprehend “what’s different this time.”

One response was a historically unprecedented expansion of credit money. Governments learned from Keynes that downswings caused by generalized overcapacity could be minimized by increasing liquidity, a course of action made much easier after the U.S. unilaterally abolished the gold standard in the early 1970’s. For much of the following decades government policies have been designed to keep the costs of credit to households and firms low, encouraging borrowing and spending. This increased purchasing power from expanded credit allowed more

productive capacity to be absorbed than would otherwise have been the case. Government deficit spending had this result as well, with “military Keynesianism” playing an especially important role in the U.S.

Ruling circles obsessively feared that this increased liquidity would result in uncontrollable inflation. When this fear became too great, Central Banks raised interest rates with the intention of causing bankruptcies and mass unemployment, thereby greatly reducing real wages and inflationary pressures (no other strategy for controlling inflation was ideologically acceptable to political, economic, and cultural elites). But high interest rates were incompatible with the policy of increasing liquidity to help markets absorb some of the excess capacity in the global economy. Other ways to restrict real wages had to be found.

This brings us to a second response to persisting overaccumulation difficulties, the globalization of trade and investment. The rise of information technologies, advances in containerized shipping, and other innovations enabled an unprecedented expansion of outsourcing and subcontracting, creating cross-border production chains. It was hoped that disaggregating production chains enabled firms to increase their profits by concentrating on their “core competencies,” that is, the sections of the chains where they could contribute the greatest “value added,” to use the jargon of the business press. In this context, however, the key point is that cross-border production chains enabled capitals to play off sections of the global working class against each other. Any group demanding higher wages, better working conditions, or unionization, could now be met with an explicit or implicit threat of capital flight to a region of the globe where workers would be cheaper and (perhaps) more docile.<sup>8</sup> The correlation between the globalization of trade and investment, on the one hand, and the decline of the share of

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<sup>8</sup> Average wages in Mexico are \$2.46/hr; in China, \$.60/hr. In the 1960's 6% of U.S. corporation's profits came from foreign investment. The figure this decade has been 18%.

workers' wages in G.D.P., on the other, is so strong across the planet that it would be very difficult to deny a causal connection.<sup>9</sup> The gap between productivity gains and gains in real wages rapidly turned into a chasm (apart from a very brief period at the height of the dot.com bubble at the end of the 1990's). In traditional Marxian terms, the implementation of effective "divide and conquer" strategies contributed significantly to a rise in the rate of exploitation, with corresponding positive results for profits.

Profits were sufficiently high in the non-financial sector to justify replacement investments, and in regions of the world able to take advantage of the opportunities generated by the globalization of trade and investment (China especially) rates of new investment greatly increased. In the world market as a whole, however, profits in industrial sectors subject to international competition were too low to justify expanded investments, despite higher rates of exploitation. The rate of investment in these sectors declined throughout this period (apart, once again, from a relatively brief splurge at the height of the dot.com bubble). Capitalism, however, remained subject to the valorization imperative, according to which funds necessarily tend to flow to sectors with the highest foreseeable returns. This was the financial sector, whose increasing importance in recent decades can also be seen as a third response to persisting overaccumulation difficulties.<sup>10</sup>

According to mainstream economic theory, the present value of financial assets represents the (appropriately discounted) rational expectation of the future value of those assets.

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<sup>9</sup> China has enjoyed unprecedented levels of growth in recent decades. According to *The Economist*, however, it is also the case that no other region has suffered a bigger decline in the ratio of wages to GDP:

	1992	2006
Chinese wages as % of GDP:	53%	under 40%
Wages/Profits ratio:	1-3.1	1-7.6

"The decline in the ratio of consumption to GDP ... is largely explained by a sharp drop in the share of national income going to households (in the form of wages, government transfers and investment income), while the share of profits and government revenues have risen." "A Workers' Manifesto for China," *The Economist*, October 11, 2007.

<sup>10</sup> In the 1960's the financial sector in the US appropriated 15% of profits; prior to the crash the level was 40%.

The increase of flows into the financial sector, however, inevitably led to their price being bid up (“capital asset inflation”). This set off a self-reinforcing spiral. Higher-value assets could be used as collateral for loans; the borrowed money was then devoted to the purchase of financial products, allowing their prices to be bid up even higher. The further inflation of capital assets provided yet more (paper) wealth to serve as yet more collateral for yet more loans that when invested lifted the market value of the capital assets yet higher. The price of these assets, increasing at a much faster rate than G.D.P., began to exceed any reasonable expectation of their future worth.

As long as government policies encouraged cheap credit, it seemed to some that this process could continue indefinitely. Other participants understood that speculative bubbles always eventually end in tears. But most of them also believed they were clever enough to cash out before the music stopped. They also were confident that if they did happen to be unlucky the government would minimize their losses by injecting massive amounts of liquidity into the financial sector.

The successes of neoliberalism should not be underestimated. The severe global recession of the 1970’s was contained, and a downturn of comparable severity was avoided for decades. Inflation too was contained, with mainstream commentators composing hymns to “The Great Moderation” (“The Great Rise in the Rate of Exploitation” would have been more accurate, but that is not the sort of thing one composes hymns about). Vast fortunes were made in the Global North, especially in the financial sector. Countries in East Asia enjoyed the faster rate of growth, and the greatest increase in living standards, in the history of our species. And some, at least, of those whose real wages declined in the U.S. were compensated with almost limitless access to credit, inexpensive imports of consumption goods, and increased (paper)

wealth from their retirement funds and housing. *But overaccumulation problems persisted in the world market.* In fact, the tendency to overaccumulation crises has strengthened in recent decades due to the spread of effective national innovation systems. The moment a new cluster of innovations with significant commercial potential emerges, research expenditures, tax breaks, credit allocations, and a multitude of other direct and indirect subsidies are now mobilized in a number of regions more or less simultaneously. In use-value terms the technological dynamism is thereby furthered. In value terms, however, things are more complicated. The more national innovation systems are in place across the globe, the sooner overaccumulation difficulties tend to arise in emerging industries and sectors, and the more the period in which high profits can be won from a competitive technological advantage is compressed. No new “golden age” of capitalist development is likely to arise in these circumstances.<sup>11</sup> (This is likely to drastically slow the development of the green technologies that are so drastically needed today).

It is easy enough to call for a rebalancing of deficit and surplus countries in the world economy, and for effective political regulation of the financial sector. These demands address real factors underlying the present crisis. But they do not address the deepest root of the crisis, the persisting overaccumulation difficulties. Consider the “rebalancing” of the global economy, which will require a massive increase in China’s domestic spending and a no lwa significant decline in U.S. consumption. The decline in U.S. consumption has begun, and it is likely to worsen. The key question is whether domestic consumption in China will increase sufficiently to compensate for that loss in demand in the world market. Government-supported spending on infrastructure in China has increased, and is likely to increase further in the future. In David Harvey’s term, this is a “temporal fix” enabling capital to continue to be accumulated and

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<sup>11</sup> Individual firms, of course, can still win extensive monopoly profits from intellectual property rights. But the extensive surplus profits of scattered individual firms do not a “golden age” of capitalism make.

circulated in the face of overaccumulation difficulties, in the hope is that by the time the infrastructure comes “online” the overaccumulation problems will have dissipated. I do not see that happening. When it fails to occur, the rate of growth of investment in infrastructure will likely decline. It is also unlikely that Chinese firms will increase their investment at the required rate as long as overcapacity problems continue to afflict the global economy.

This leaves the consumer market. As noted above, a world of cross border production chains is a world in which wages are under pressure everywhere. The tremendous expansion of coastal regions in China has led to labor shortages and wage increases. What was the response? Investment by both Chinese and foreign firms began to shift to inland regions, where wage levels remain low, and to counties like Vietnam, where wages levels are undercut the dismal Chinese standards. Even if the Chinese government devotes a higher percentage of its revenues to a social safety net, and Chinese households will feel they are able save less and spend more, there is not likely to be a long-term increase in real wages sufficient to make consumption in the Chinese domestic economy a motor of global growth. Wages have been a declining percentage of G.D.P., and unless the fundamental balance of class forces in China changes, there is every reason to expect this to continue.

The point is by no means limited to China. Globalization in the form of expanding cross-border production chains forces tends to restrict the growth of real wages, since a significant increase in real wages threatens to result in significant capital flight or, at the very least, in a slower rate of new investments. This in effect forces countries to make success in export markets, rather than expanding domestic markets, more central to their strategy for economic growth. This is equivalent to saying that there is a deflationary bias in the world market. This deflationary tendency was checked by the expansion of U.S. consumption. The U.S., in the quite

fortunate position of having its national currency function as the main form of world money, was confident that any outflow of dollars from its trade deficit would be compensated by capital inflows. The limits of this process appear to have been reached, unleashing the deflationary bias.<sup>12</sup> If the major nation willing and able to accept extensive trade deficits now faces an extended period of austerity, the underlying deflationary bias in the world market will most likely overwhelm any positive dimension of a “rebalancing” of global flows.

The prospects for a major restructuring of purpose and function of the financial sector contributing to a more normatively attractive form of global capitalism appear no less bleak. In the foreseeable future overproduction difficulties are likely to persist (they are in fact likely to be greatly worsened by the loss of effective demand due to excessive levels of household debt). Rates of investment by non-financial firms will invariably be restrained in such a world. This is also a world in which publicly funded infrastructure is unlikely to generate significant returns in the private sector. And it is a world in which most other forms of government spending will be severely restricted by the perceived need to put government budgets back in order after the immense bailouts and stimulus packages, with those programs that do remain generously funded (most conspicuously, military spending in the U.S.) benefiting a relative handful of firms. *As long as these conditions remain in place, financial bubbles will continue to offer the most promising source for obtaining high profits.* No piece of legislation, no imposed regulation of the financial sphere, can change this state of affairs. In a social world still governed by the valorization imperative, the drive to accumulate as much capital as possible as rapidly as

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<sup>12</sup> “The integration of China and other emerging economies into the world trading system has, in effect, more than doubled the global labour force, and by curbing workers’ bargaining power it has restrained pay demands in most developed countries in recent years ... The net result is ... deflationary” (“Inflated Claims: Why China is not to blame for the surge in global inflation,” *The Economist*, August 16, 2008, p. 72).

possible, it is difficult to imagine any form of legislation or regulation that would eliminate new speculative bubbles emerging more or less continuously.

Unprecedented liquidity has been pumped into the U.S. economy by the government. Financial firms have been able to borrow close to unlimited funds at close to zero rates of interest. For a period they borrowed money and then immediately turned around and purchased U.S. Treasury bonds that offered 3.5% interest, a risk-free way to make profits through government planning. The nanosecond after the worst fears from the crisis beginning in 2007 abated—and well before the full the depth of the crises has been revealed, let alone been resolved—their “risk appetite,” that is, their demand for higher returns, was resurrected. Dollars are now borrowed in the U.S. and invested in real estate or stock markets in other regions (the “carry trade”). The massive inflow of these investment funds has set off massive speculative bubbles in those regions, as it always does, with profits have been in the 50-70% range.<sup>13</sup> A similar story can be told of China, where 50% of the funds made available by the government in response to the global crisis has been estimated to find its way into speculation on real estate and equity.

These speculative bubbles will eventually collapse, as they all eventually do. But vast fortunes will be made in the meantime, much of the social costs of the collapses will be externalized, and other bubbles will arise to take their place. It is perfectly appropriate to respond to the folly and greed manifested in financial speculation with anger and disgust. But focusing on these vices should not prevent us from understanding that in a social order defined by the valorization imperative speculation is a fully *rational* activity when overaccumulation

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<sup>13</sup> “Let us sum up: traders are borrowing at negative 20% rates to invest on a highly leveraged basis on a mass of risky global assets that are rising in price due to excess liquidity and a massive carry trade. Every investor who plays this risky game looks like a genius—even if they are just riding a huge bubble financed by a large negative cost of borrowing—as the total returns have been in the 50-70 per cent range since March.” “Mother of All Carry Trades Faces an Inevitable Bust,” Nouriel Roubini, *Financial Times*, Nov. 1, 2009.

difficulties persist in non-financial sectors. Financial bubbles are, in fact, the main source of economic dynamism under these circumstances. No state regulator can change this state of affairs by waving a magic wand. There were only 38 financial crises between 1945 and 1971. Between 1973 and 1997, after the outbreak of serious overaccumulation problems in the world economy, the tally jumped to 139.<sup>14</sup> There is no reason to expect this number to decline now.

It is time to conclude. No set of answers to the question “What’s Different This Time?” could possibly be complete or anything but extremely provisional. Nonetheless, I believe that the following processes are likely to define our historical moment:

1. The vast majority of citizens in the U.S. are about to face an extended period of austerity far more severe than that following any other economic downturn in the last 70 years. Neoliberalism put off the day of reckoning for decades through smoke and mirrors (that is, through historically unprecedented levels of debt). That period is now over.
2. Austerity is likely to be imposed on working men and women throughout the globe, as the formation of cross-border production chains continues to allow capital to implement effective “divide and conquer” strategies on a historically unprecedented scale.
3. Uneven development in the world market will sharpen, despite the rise of China and a relative handful of other poor countries. Most regimes will be unable to provide the sort of support for their banking and industrial firms that regimes in wealthy regions have been able to provide.<sup>15</sup> Most will be unable to fund effective national innovation systems.
4. The prospects for a new “golden age” of capitalist development are now more remote than they perhaps have ever been. On the supply side there are major constraints due to

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<sup>14</sup> Martin Wolf, *Fixing Global Finance* (Baltimore: Johns Hopkins University Press, 2009), p. 31

<sup>15</sup> “The World Bank reckons that proposed subsidies for the car industry amount to \$48 billion. Nearly 90% of this is in rich countries.” “The Nuts and Bolts Come Apart,” *Business Week*, March 28, 2009, p. 81.

already existing productive capacity. On the demand side, there does not appear to be an emerging “consumer of last resort” in the world market to replace the debt-fueled U.S. consumer market. Further, the deflationary bias imposed by cross-border production chains places constraints on demand side throughout the global economy.

5. The persistence of overaccumulation difficulties implies that financial speculation is likely to remain the main source of whatever dynamism there is in the global economy. While this in itself is not new, the concentration of economic power in the financial sector today is.
6. As more and more state revenues are tied up in securing accumulation for fewer and fewer financial firms, as more and more state programs supporting broad public interests are starved of funds as a result, as more and more utopian promises of a “new economy” based on new technologies prove to be fraudulent, with continued productivity growth bringing more, rather than less, economic insecurity, popular resentments will surely arise. One portion of the endlessly circulating verbiage and images making up what Guy Debord termed “the spectacle” will attempt to diffuse this resentment with distractions. Another portion will attempt to mobilize it in support of regressive forces. Media-induced social pathologies will proliferate.
7. Finally, however, it is not unreasonable to think that more and more people will also begin to wonder whether a more humane alternative to the present social order might be feasible. A society in which decisions regarding the level and allocation of new investment funds were democratized, as advocated by Professor Schweickart, would not have the systematic tendency to overaccumulation crises at its heart. If capital markets were abolished, and new investment funds were allocated to publicly owned community

banks, as he also suggests, society would never again be plagued by financial crises. If democracy were instituted on the enterprise level, and those exercising authority in the workplace were subject to the consent of those over whom the authority was exercised, one section of the global work force could not be played off against the interests of another.

If this last claim is correct, then there is one last thing that is “different this time.” The historical period in which those engaged in normative social philosophy could ignore the question of socialism is rapidly coming to an end.