The crisis of global capitalism that has unfolded since 2008 is not merely economic. It is structural and multidimensional. The events that took place in its immediate aftermath show that we are entering a world with very different social and economic conditions from those that characterized the rise of global, informational capitalism in the preceding three decades. The policies and strategies developed to manage the crisis—with mixed results, depending on the country—may usher in a sharply different economic and institutional system, just as the New Deal, the construction of the European Welfare State, and the Bretton Woods global financial architecture gave rise to a new form of capitalism in the aftermath of the 1930s Depression and the Second World War. This Keynesian capitalism was itself called into question after the crisis of the 1970s and the restructuring that took place under the combined influence of three independent, but interrelated, developments: a new technological paradigm, a new form of globalization, and the new cultures that emerged from the social movements of the 1960s and 1970s (Castells, 1980; [1996] 2010). Cultural change was marked by the irresistible
rise of the culture of freedom. The technological innovations that changed the world were nurtured in the campuses of research universities, bringing together the passion of discovery and the insubordination against the corporate establishment (Markoff, 2006). Entrepreneurialism took root in the culture of individuation that bypassed organized social action and state bureaucracies (Giddens, 1991). However, the culture of freedom and entrepreneurialism also paved the way for the wave of deregulation, privatization, and liberalization that shook the world economy, changing the foundations of economic institutions and unleashing free market globalization (Judt, 2010).

The new system, global informational capitalism, and its social structure, the network society, displayed some historically irreversible features (such as the logic of the global network society based on digital networking of all core human activities), together with some elements submitted to eventual change under the impact of crises arising from the contradictions of this model of economic growth (Castells, [1996] 2010; Hutton and Giddens, 2000). Thus, the current crisis stems from the destructive trends induced by the dynamics of a deregulated global capitalism, anchored in an unfettered financial market made up of global computer networks and fed by a relentless production of synthetic securities as the source of capital accumulation and capital lending. Furthermore, the combination of deregulation and individualism as a way of life led to the rise of a new breed of financial, corporate managers focused on their own short-term profits as the guiding principle of their increasingly risky decisions (Zaloom, 2006; Tett, 2009). They rationalized their interests by building mathematical models to sophisticated, and obscure, their decision-making process while disregarding the interests of their shareholders, let alone those of society, or even capitalism at large (McDonald and Robinson, 2009). The “me first” culture is now a key ingredient of business management (Sennett, 2006; Moran, 2009).

However, at the heart of the events that triggered the crises of 2008 and 2011, there was “the complacence of the elites” managing the economy, as Engelen et al. (2011) write in their compelling analysis of the institutional and cultural origins of the crisis. In their words:

the crisis resulted from an accumulation of small, and in themselves relatively harmless, decisions made by individual traders or bankers and banks. It is hard to be so kind about the regulators and the political elite who made and implemented policy in finance. They typically bought into the high modernist macro project of “perfecting the market” and at the sectoral level bought into a “trust the bankers to deliver functioning markets” story. This promised everything and offered very little
except the undermining of public regulation, while innovation delivered the exact opposite of the promises, as risk was concentrated not dispersed by a dysfunctional banking system. (Engelen et al., 2011: 9)

We have reached a threshold in the evolution of this particular type of capitalism, which in the autumn of 2008 entered a process of implosion only halted by the intervention of an old acquaintance, the state, which had already been sent to the oblivion of history by the apologists of market fundamentalism. Because one of the key measures to stop the free fall of this form of capitalism was the re-regulation of financial markets and financial institutions, which is tantamount to drastically curtailing lending, easy credit ended. Since easy credit was the fuel of consumption, and consumption had accounted for three-fourths of GDP growth in the USA and two-thirds in Europe (since 2000), economic recession hit both North America and Europe. Demand fell sharply, many firms went bankrupt, and many others downsized. Unemployment and underemployment rose considerably, further reducing demand and straining social spending. The response from governments was at first slow, confused, and uncoordinated. When they realized the severity of the crisis, they focused on emergency stabilization of a financial system on the edge of collapse. Thus, they used tax money and borrowed from global financial markets (including loans from China and the sovereign funds) to bail out the banks and financial institutions, plunging government finance into staggering public debt (Stiglitz, 2010). Secondly, some governments resorted to a sort of neo-Keynesianism, using public investment in infrastructure to stimulate the economy and create jobs quickly. Because of the urgent need to create jobs, most of this public investment went to the least productive infrastructure (transportation and public works) rather than to informational infrastructure (education, research, technology, renewable energy), which would have greater impact on productivity in the long term. Governments extended unemployment insurance and, for a while, kept funding social benefits to maintain social order and to remain in office.

The net result was a deepening of the public debt that fed a budget deficit spiral, as interest owed on unpaid debt became one of the major budgetary items. When new borrowing was needed to finance growing expenses, the financial institutions, resurrected with public money, refused to lend to governments or requested an abusive risk premium on top of market interest rates. As governments were compelled to cut budgets and implement austerity policies, with social benefits bearing the brunt of the cuts, social
dissatisfaction mounted, eventually leading to unrest. In short: a financial crisis triggered an industrial crisis that induced an employment crisis that led to a demand crisis that, by prompting massive government intervention to stop the free fall of the economy, ultimately led to a fiscal crisis. When governments started to fail their financial obligations, the political system went into reverse, with parties blaming each other and blocking any salvage plan that would not increase their power over the political competitors. Countries refused to help other countries, unless they were on the edge of bankruptcy, and only under the condition that bailed-out countries would surrender sovereignty (Coriat, Coutrot, and Sterdyniak, 2011). Citizens withdrew their trust and money from political and financial institutions. The economic crisis deepened the crisis of political legitimacy, and ultimately threatened to destabilize society at large (Judt, 2010; Engelen et al., 2011).

Thus, several years since the beginning of the crisis, there is still no ending, since the crisis continues to deepen and spiral, even though a complete collapse has been narrowly avoided for the time being. A leaner and meaner financial system has become profitable again at the cost of refusing to fund recovery or bail out governments. But the deepening fiscal crisis is depriving governments of any leverage on the management of the crisis, while consumers cut their consumption, and the welfare states are reduced to their bare bones. The eurozone is being shaken by the inability of the governments to act together, as Germany uses its economic clout to push toward a tighter fiscal union that would sharply reduce national sovereignty in most European countries. Social protests are mounting, populist movements have erupted in the political scene, and the culture of defensive individualism fuels xenophobia, racism, and widespread hostility, breaking down the social fabric and increasing the distance between governments and their citizens. The culture of fear rises alongside the embryos of alternative cultures of hope.

And yet, as the period of triumphant global informational capitalism was linked to the hegemony of a culture of unrestricted individualism, economic liberalism, and technological optimism, any substantial socio-economic restructuring of global capitalism implies the formation of a new economic culture. Culture and institutions are the foundations of any economic system (Ostrom, 2005). Since culture (a specific set of values and beliefs orienting behavior) is a material practice, we should be able to detect the signs of such culture in the spontaneous adaptation of peoples’ lives to the constraints and opportunities arising from the crisis. The observation of these proto-cultural forms and of their
interaction with the contours and evolution of the economic crisis constitutes one of the themes of the reflection proposed in this volume.

To illustrate the social landscape that characterizes this crisis and its aftermath, we will now focus on key features of the process in two different contexts: the United States and Portugal. They are, of course, very different countries, and the crisis and its management have specific manifestations in both of them. Furthermore, since the crisis continues to metamorphose as we write, the description that follows will be history by the time you read these pages. However, by proceeding with a brief overview of events in the immediate aftermath of the crisis in two dissimilar contexts, we may ground in observation the issues raised in this introduction that will be analyzed in depth in the chapters of this volume.

The global financial crisis that exploded toward the end of 2008 and sent the global economy in a tailspin started in the United States, the seedbed of global informational capitalism, which has been the predominant breed of capitalism since the 1980s. As mentioned above, the crisis was the direct consequence of the specific dynamics of the global informational economy, and it resulted from the combination of six factors.

First, the technological transformation of finance provided the basis for the formation of a global financial market around global computer networks and equipped financial institutions with the computational capacity to operate advanced mathematical models. These models were deemed to be capable of managing the increasing complexity of the financial system, operating globally interdependent financial markets through electronic transactions effected at lightening speed.

Second, the liberalization and deregulation of financial markets and financial institutions allowed the quasi-free flow of capital across companies and across the world, overwhelming the regulatory capacity of national regulators.

Third, the securitization of every economic organization, activity, or asset made financial valuation the paramount standard by which to assess the value of firms, governments, currencies, and even entire economies. Furthermore, new financial technologies made possible the invention of numerous exotic financial products, as derivatives, futures, options, and securitized insurance (for example, credit default swaps (CDSs)) became increasingly complex and intertwined, ultimately virtualizing capital and eliminating any semblance of transparency in the markets, so that accounting procedures became meaningless.
Fourth, the imbalance between capital accumulation in newly industrializing countries (such as China and several oil-producing countries) and capital borrowing in the United States facilitated a credit-led expansion in the USA that resulted in a wave of adventurous lending to a crowd of eager consumers who became accustomed to living on the edge of debt, pushing the lenders far beyond their financial solvency. Indeed, this moral hazard was discounted by the irresponsible lenders, always confident of the federal government’s willingness to bail them out, should the need arise, as it inevitably would.

Fifth, because financial markets only partially function according to the logic of supply and demand, and are largely shaped by “information turbulences” and “irrational exuberance,” the mortgage crisis that started in 2007 in the United States, after the bursting of the real-estate bubble, reverberated throughout the global financial system and in the international real-estate and mortgage markets (Akerlof and Shiller, 2010).

Sixth, the lack of proper supervision in securities trading and financial practices enabled daring brokers to bolster the economy and their personal bonuses through adventurous lending practices.

The paradox is that the crisis was brewed in the cauldrons of the “new economy,” an economy defined by a substantial surge in productivity as the result of technological innovation, networking, and higher education levels in the workforce. Indeed, in the United States, where the crisis began, cumulative productivity growth reached almost 30 percent between 1998 and 2008. However, because of shortsighted and greedy management policies, real wages increased by only 2 percent over the decade, and in fact weekly earnings of college-educated workers fell by 6 percent between 2003 and 2008. And yet, real-estate prices soared during the 2000s and lending institutions fed the frenzy by providing mortgages, ultimately backed by federal institutions, to the same workers whose wages were stagnant or diminishing. The notion was that productivity increases would ultimately catch up with wages as the benefits of growth would trickle down. It never happened, because financial companies and realtors reaped the benefits of the productive economy, inducing an unsustainable bubble. The financial services industry’s share of profits increased from 10 percent in the 1980s to 40 percent in 2007, and the value of its shares from 6 percent to 23 percent, while the industry accounts for only 5 percent of private sector employment. In short, the very real benefits of the new economy were appropriated in the securities market, and used to generate a much greater mass of virtual capital that multiplied in value as it was lent to a multitude of avid
consumers–borrowers. Thus, in the United States, between 1993 and 2008, bank lending accounted for only 20 percent of total net lending. The rest came from money market funds, exchange-traded funds, hedge funds, and investment banks that had been transformed into lending agencies in a deregulated environment. Furthermore, most banks also relied largely on securitization, instead of their own deposits, to finance their loans.

Moreover, the expansion of the global economy, with the move of China, India, Brazil, and other industrializing economies to the forefront of capitalist growth, increased the risk of financial collapse as the United States and other markets in the world borrowed capital accumulated in these economies in order to sustain their solvency and imports capability while taking advantage of favorable lending rates (Wolf, 2008). The massive military spending of the US government to foot the bill for the invasion of Iraq was also financed through debt, to the point that Asian countries now hold a large share of US Treasury Bonds, intertwining the Asian Pacific and the US budget in a decisive manner. While inflation was kept relatively in check because of significant productivity growth, there was a growing gap between the size of the lending and the ability of both consumers and institutions to repay what they had borrowed. The percentage of household debt to disposable income in the USA grew from 3 percent in 1998 to 130 percent in 2008. As a result, prime mortgage delinquencies as a percentage of loans increased from 2.5 percent in 1998 to 11.8 percent in 2008.

And so, a financial crisis of unprecedented proportions unfolded in the USA and in Europe, ending the myth of the self-regulated market, with devastating consequences for firms and household economies. The total market capitalization of the financial markets fell by more than half in 2008. Many financial companies collapsed (Lehman Brothers being only the most notorious of them), and others were brought to near bankruptcy. Hundreds of banks disappeared in the USA. The IMF evaluated the global loss for financial institutions at about $4.3 trillion.

However, there is no such thing as a social vacuum. Social systems do not collapse as a result of their internal contradictions. The crisis, its conflicts, and its treatment are always social processes. And these social processes, as all others, are enacted and shaped by the interests, values, beliefs, and strategies of social actors. This is to say that, when a system does not reproduce its logic automatically, there are attempts to restore it to its former state, as well as projects to reorganize a new system on the basis of a new set of interests and values. The ultimate outcome is often the result of conflicts and negotiations between the standard-bearers of these different logics.
In the United States, the severity of the crisis was a key factor in the surprising election of Barack Obama on a platform of social and political reform. However, he was sworn into office in the midst of serious threat of financial collapse. He focused first on bailing out the financial institutions. He then tried to build a social and political consensus to proceed with health reform, stimulate the economy, and regulate the financial system. But stern political opposition from the Republican Party and from a right-wing populist movement, known as the Tea Party, against increasing taxes and government regulation, led to a political stalemate and ultimately derailed many of his reform policies. Given the need to finance the two wars he inherited from the Bush administration, and his inability to increase revenue, particularly after the Republicans took control of the House of Representatives, Obama was unable to pursue public investment at a high enough level to engineer a sustained economic recovery.

Unemployment remained close to a double-digit level, while the fiscal crisis spread in local and state governments. Social spending cuts and layoffs in both private and public sectors fueled resentment. With public confidence at a low, it became politically difficult to raise taxes. To finance a growing deficit, Obama had to accept the conditions of the Republican Congress in order to authorize the increase of the debt ceiling. The fiscal crisis became a time bomb, while the social safety net shrank in the midst of greater need. The most potentially reformist administration since the 1960s was put into survival mode, unable to stimulate the economy or to appease society. Only the financial system felt that happy times were here again, comforted by the presence of close allies in the top echelon of Obama’s economic team. The Democratic left that had mobilized for Obama felt discouraged. Right-wing populist movements, heavily financed by the most conservative sectors of the corporate world (for example, Koch Industries), went on the offensive to take control of the political system and reshape the economy in line with their interests. In spite of growing technological innovation, entrepreneurialism, and productivity in the United States, dependence on foreign investment and lending increased, and economic imbalances and social differences were intensified. The old global, informational model was being restored in a much reduced version, but at the price of disconnecting large segments of the economy and society from the competitive core of American corporate capitalism, with wealth and power increasingly concentrated in the hands of a small elite, paradoxically supported by a populist movement largely consisting of white working-class
citizens of middle America. This revamped model of financial capitalism does not seem to be sustainable.

Portugal offers a vivid example of the evolution of the crisis from the USA to Europe and from its financial to its economic dimensions, with its path toward political crisis and the limits of national European political autonomy vis-à-vis the US-based rating agencies and the Berlin–Paris axis governing the European Union. The 2007 subprime crisis in the United States quickly spread to Europe and, eventually, to Portugal. In Portugal, a small country with an already fragile economy, financial unrest had severe consequences. Portuguese living standards had increased greatly in the twenty-five years after the revolution of April 25, 1974. During the 1990s, productivity increased, private sector investment grew, a National Health Service was consolidated, and generalized access to public education was achieved. In the early 2000s, Portugal had not only one of the lowest newborn death rates in developed countries, but also one of the European Union’s lowest unemployment rates. In the areas of entrepreneurial innovation dissemination practices, university enrollment, high-school graduation rates, and high- and low-tech exports, Portugal had achieved better results than its neighboring countries in the eurozone periphery.

But the economic policies shared by all political parties since the early 1990s—namely, infrastructure projects funded by the state (Expo 98 World Fair, stadiums for the 2004 European Football Championship, and new motorways)—had little positive impact on growth. Although expansion was nearly stagnant during the first half of the 2000s, Portugal had, by 2007, once again achieved economic growth and an increase in job creation. It is within this framework that, in September 2007, the first signs of the global financial crisis hit Portugal. By then the effects of mortgage crisis in the eurozone had already become a liquidity crisis for the euro, hampering access to credit in the real economy. This is the moment when the European Central Bank (ECB) started its almost four-year-long policy of injecting more capital into the monetary system.

Also in Europe, the bursting of the subprime bubble deteriorated the assets of the financial sector, bringing liquidity problems for financial institutions and thus leading to a banking crisis. The stock markets plunged, damaging the assets of eurozone countries. In certain cases, this indicated difficulties for government budget control and debt finance, giving birth to a sovereign debt crisis. Furthermore, some of these countries rescued the most affected banks from collapse through the implementation of safety plans or
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guarantees. In the autumn of 2008, Iceland witnessed the implosion and nationalization of its three major banks. In Portugal, the lack of interbank liquidity led to the downfall of Banco Português de Negócios (BPN). In November 2008, BPN was nationalized by the Portuguese government in order to prevent systemic risk, but the confidence in the banking sector had already been shaken. The structural deficits in Portugal over the years led to a debt burden, which was aggravated by two bailouts of national banks (BPN and Banco Privado Português (BPP)) by the Portuguese government. These banks had been accumulating losses because of bad investment and fraud by their board of managers—very similar to Madoff’s actions in the USA.

Beyond bank bailouts, European governments responded during 2008 and 2011 to the global economic crisis essentially by resorting to stabilizers and stimulus packages, partly to offset the sudden contraction in private sector demand. These expansionary fiscal policies did prevent a steep decline in output and employment, but left governments with high debt burdens. In the process, debt-holders started questioning eurozone countries’ ability to service their national debt, because those in a monetary union cannot resort to currency devaluation—a condition even more delicate for euro countries such as Portugal with a high debt burden but low export/import ratio and slow economic growth. Being part of the eurozone, the country could manage its problems by borrowing money with low interest rates and injecting it into both the private and the public sector, both for investment and consumption. This, in turn, brought even more debt.

Portugal was the third eurozone country to ask for international assistance, after Greece and Ireland. What the bailout of Portugal demonstrates is that there is not an overarching debt crisis in the eurozone; rather, there is a crisis in several countries with more differences among them than EU membership and the euro currency. The bailout of Portugal also shows that it is not only about sovereign debts. It is about where money can be made within the global casino and what is to be gained by the croupiers (the rating agencies) and of course by the gamblers (financial market investors). It is clear that all three bailed-out eurozone countries had gambled on the belief that a single currency would enable them to borrow heavily at lower interest rates and that such a scenario would continue to be sustainable in the medium to long term. But in Portugal the case is somewhat peculiar, for there was not an underlying systemic risk within the bank system; the political system was already achieving economic growth and reforming the public sector. The Portuguese public debt was below the level of nations
like Italy or Belgium that had not been subject to bailout. Its budget deficit was lower than that of several other European countries and was able to be reduced, although irregularly, as a result of the government’s actions in the previous decade.

So why the Portuguese bailout? The information turbulence fueled by fears of market contagion in Greece and Ireland, together with the possibility of future rating downgrades, became a self-fulfilling prophecy and at the same time offered interesting prospects for profit in short-term selling. By raising Portugal’s interest rates to levels beyond economical sustainability, the rating agencies led the country to the only seemingly short-term option: an EU–IMF bailout. One could argue precisely that in Portugal the path from financial to economic to political crisis has been followed all the way. Portugal felt the need for bailout because of the political frailty of the current political institutions of the eurozone and their inability to deal with crisis and to think differently and experiment with different approaches. In doing so, the governments of the European Union and the ECB have been pushing the crisis into the political domain, where it is experienced in the streets and squares, fueling the undermining of the democratic institutions of modernity. Along that process, governments and the EU allowed new players, such as rating agencies or coalitions of countries (for example, the Berlin–Paris axis), to undermine their power. Could the European Union have supported Portugal as an alternative to bailout? Probably, yes. The ECB could have bought Portuguese bonds, as it did a few months later when both Italy and Spain were being targeted in the very same ways, where central bank-led intervention prevented prospective bailout. The bailout of Portugal shows how future scenario prospects suggested by rating agencies, and acted upon by political and banking institutions of the European Union, undermine economic recovery and political sovereignty.

The Portuguese bailout also shows how the political sphere in the European Union has succumbed to the unregulated financial markets. It shows that the return to the predominance of the political over the financial seems to be increasingly difficult to achieve within the current institutional setting. This explains why people are entrenching themselves in the public squares in search of places where the political might have supremacy—a place where people, in their view, can chose their future.

Thus, in the immediate aftermath of the crisis, in the USA and in the European Union, a four-layer economy seems to be emerging:
1. A revamped informational capitalist economy for a much smaller segment of the population—probably the sector dominated by the professional class. There is a new wave of technological and organizational innovation; a kind of new, new economy unfolding, with new products and new processes in fields such as energy, nanotechnology, and bioinformatics. However, because there is a reduced pool of venture capital, this new round of innovation does not have the potential for increasing the consumption of the majority of the population, thus hampering overall economic recovery.

2. A public and semi-public sector in crisis, increasingly unable to generate employment and demand as the fiscal crisis deepens.

3. Survival-oriented, traditional economic activities, with low productivity and high employment potential for low-skill jobs, with an important component of informal economy.

4. An alternative economy sector (not necessarily excluding for-profit production) based on a different set of values about the meaning of life, whose characteristics we will try to explore in this volume on the basis of observation.

Indeed, if people cannot consume as much as they would like, they will have to find fulfillment in something else. But they cannot find fulfillment in something else unless they change their values; that is, unless they generate from within a new economic culture—actually, a variety of economic cultures—unified under the common goal of superseding consumerism. Since new values do not generate in a vacuum, this non-consumerist culture may only grow on the basis of actual social practices that exist in societies around the world, often first enacted by drop-outs of the current economy because of their rejection of what they consider to be a destructive way of life. These are not neo-hippies. They come in all formats, and in some cases under very innovative forms (for example, ethical hackers, to use Himanen’s terminology). But the critical remark is that the rise of a new economic culture may result from the historical convergence between a cultural vanguard searching for a different way of life, and the disoriented masses of ex-consumers who no longer have the opportunity to consume anything but themselves—people who have nothing to lose except their canceled credit cards.

However, beyond the shores of North America and Europe, most of the world is not in crisis—at least, not in the crisis of global capitalism that shook up the until-now dominant economies. Granted, poverty,
exploitation, environmental degradation, epidemics, widespread violence, and uncertain democracy are the daily lot for people living in what are known as emerging economies. Yet, peripheral capitalism, sometimes managed by a Communist party, as in China, is growing to the point of becoming the most dynamic component of the global economy, assuring in fact a new round of capital accumulation on an even grander scale than in the past. Because of the economic and cultural interdependence between old and new areas of capitalist expansion, the understanding of this crisis and its aftermath is impossible without considering developments in Asia, Latin America, and Africa. In short, we must undertake the analysis of the crisis as a “non-global global crisis of capitalism,” and account for the interaction between areas in decline and areas in expansion, looking into the causes and consequences of this asymmetrical development of global capitalism. This is why, at the end of this volume, an analysis of these dynamics from the perspectives of Latin America and China will provide material and hypotheses reflecting on the actual contours of the world emerging in the twenty-first century.

The central theme of the interdisciplinary, multicultural analysis presented in this volume is that the economy is—all economies are—culture: cultural practices embedded in processes of production, consumption, and exchange of goods and services. As Viviana Zelizer (2011) has forcefully argued, culture shapes the economy. When there is a systemic crisis, there is indication of a cultural crisis, of non-sustainability of certain values as the guiding principle of human behavior (Aitken, 2007; Akerlof and Shiller, 2010). Thus, ultimately, only when and if a fundamental cultural change takes place, will new forms of economic organization and institutions emerge, ensuring the sustainability of the evolution of the economic system (Nolan, 2009). Our hypothesis is that we may well be in such a period of historical transition. Therefore, we are presenting in a plural perspective a series of studies that examine how certain cultural and social forms led to the crisis, as well as assessing the social productivity of different cultures emerging in the aftermath of the crisis. Which cultures will ultimately come to dominate social practice may determine our collective fate: either to enter a process of social disintegration and violent conflicts, or else to witness the rise of new cultures based on the use value of life as a superior form of human organization.
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References


