STORM
THE WAYS OF THE CRISIS AND THE WAYS OUT OF IT

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Things will get worse; I wish and hope for it. I prefer nothingness to evil and dust to rottenness. And then there will be renewal! Dawn will come again! We shall no longer be around. What difference does it make?

Gustave Flaubert, 1853

O! Start a revolution somebody!
Not to get the money
But to lose it all for ever.

D.H. Lawrence, 1929

There's a new world coming
And it's just around the bend.

Mama Cass Elliott, 1960

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Introduction

Great economic crises are not just economic. They resist artificial and academic classification. They challenge the presuppositions on which rest a model of society, a style of life, and a type of civilization. This is my first point. The second is that such grave moments convoke, for reasons that remain mysterious, the best leadership to take charge. A great crisis is a call for great characters to step forward –men and women who rise to the occasion. It does not always happen, nor does it happen everywhere, but it does happen sometimes, somewhere, and when it does, a true historical turning point appears. My third and last point is epistemological. A great social and economic crisis is revelatory of structures. These are nothing more and nothing less than the rules of the social game. Together these rules constitute a social system. They are something like its grammar.

Every great crisis produces a terrifying clarity. Those who are not blinded by its burning light will find Ariadne's thread out of the labyrinth –the path towards a better and more just world. Hitherto the possibility of such world seemed endlessly postponed, either because nobody really wanted it, or because it was easier to dream about it than to bring it about. Oftentimes in the course of human affairs what is sensible seems more difficult than what is fanciful.

In the pages that follow I seek to trace the origins of the present global crisis, to describe its unfolding, to gauge its paradoxical consequences and to adumbrate the paths out of it. I of course do not forget that the future cannot be foretold; it can only be built.

Chapter 1

Doña Rosa and the Dollar:

On Monetary Geopolitics

The volatility of the dollar betrays the structural weakness in the North American economy, an economy based on indebted consumption and enormous military spending. In the distance, we can see the first signs of a potential geopolitical restructuring and the incipient emergence of new blocs.

In 2005 I met Doña Rosa in her flat in the neighborhood of Recoleta, Buenos Aires. In 2006 I wrote this report.

Doña Rosa is a sweet and lucid old woman, a neighbor of my mother, with whom I like to chat about the world and life whenever I visit Buenos Aires. Widow of a merchant marine sailor, she is always interested in my travails sailing and in my experiences on the ocean.

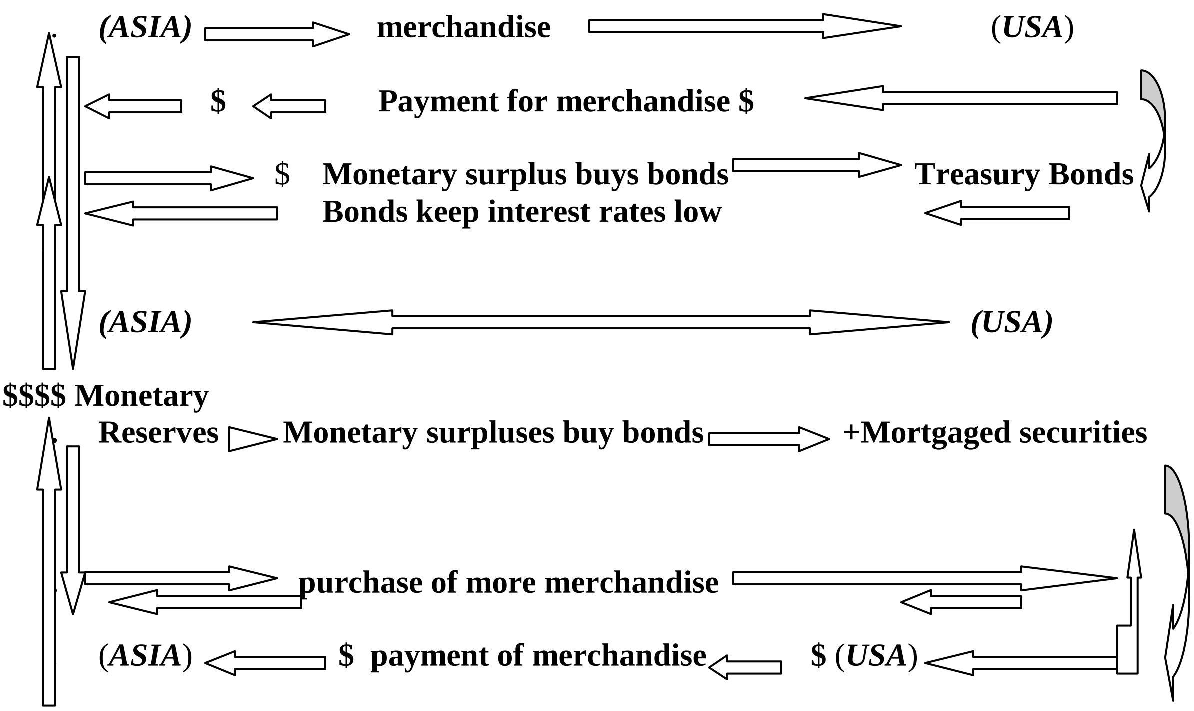
It wasn't easy explaining to her how tropical cyclones take shape and grow – the kind of storms called hurricanes when they batter the Atlantic and typhoons when unleashed in the Pacific. However, I insisted on the demonstration, since Doña Rosa always asks me to tell her what I learn on the high seas. I said more or less the following.

A hurricane takes shape gradually at first, but then strikes with catastrophic results. Moist air from warm waters rises to phenomenal heights (from the atmosphere to the troposphere, grazing the stratosphere). The navigator's barometer registers a tremendous drop in atmospheric pressure. The mass of air rises in a revolving fashion. In the Northern Hemisphere, this revolution is counter-clockwise. Upon reaching the highest strata, the air mass, instead of running into a reverse air flow that would brake its circulation, runs into another current flowing in the same direction that imparts amazing velocity to this high cloud spiral – speeds in excess of 100 kilometers per hour. This wall of spinning air moves like a crazy merry-go-round around a small, calm center or eye. The huge whirlwind, with a diameter hundreds of miles wide, moves over the ocean, following the warm water currents it feeds on. It destroys everything in its path: large and small boats, shacks and hotels, villages and plantations, live and dreams. Only two things can stop it: the large continental masses where hurricanes generally make landfall after devastating islands and coastlines, or the cool, high-latitude waters where their crazy trajectory also comes to an end. The atmosphere recovers its equilibrium when the tremendous energy stored in the tropics is discharged in the planet's temperate zones. The only thing a sailor can do in these cases is stay home, if possible, for the duration of hurricane season, or let it ride, in other words, trust that luck will smile down on him.

At the end of my summary, Doña Rosa looked satisfied. At that point, it was easier for me to explain to her, by analogy, the dynamics of the international monetary maelstrom.

When North American consumers buy huge quantities of Asian products (1) (the majority of global production has moved from other countries to China and other Asian sites), hundreds of billions of dollars from these sales accumulate in the coffers of Asian governments, who, in turn, recycle this money through the North American financial system and, in this way, influence the interest rates and economic activity of the world's leading superpower. At this point in my explanation, I made a drawing so Doña Rosa could visualize the global economic flow.

Global Circulation of Money, or the Making of a Financial Hurricane



…And so until the financial hurricane is full fledged

I don't know if Doña Rosa understood everything. I explained to her that bonds are a type of IOU. If the debtor gets in a jam, and stops paying, the cessation of payment is called default. Default leads to a huge crisis, since monetary flows break down and the trust that transactions are based on is violated. An alternative is to renegotiate the terms of repayment. Another alternative is to pay with devalued currency, which is a more delicate way of paying less that what you should (if the country has the privilege of going into debt with its own money, and this money is reserve currency (2).

I do know that Doña Rosa was, with alarming speed, able to boil down my explanation to her experience as an Argentine octogenarian. "Look – she said – when a country spends more than it earns, and takes out loans to keep on spending, sooner or later it runs the risk of going broke. It's at the mercy of its foreign creditors who impose their own conditions. The country itself is full of poor, angry people. And they have every right to be angry – she added – if their savings have gone up in smoke and they only have a few worthless pesos in their pockets, and they have impossible debts on top of that." (3)

Doña Rosa had been lucky. The default crisis in Argentina snuck up on her a few months after being widowed. Her departed husband had left her savings in the form of cash dollars, which Doña Rosa never had time to deposit in her bank account. Consequently, she avoided being cornered and having her assets converted into devalued pesos. For a while she felt safe, since she could gradually change her dollars over into pesos and, in this way, live out her remaining years in relative peace. However, a few months ago, she read in the papers that the dollar was also losing its value against other currencies, in particular compared to the European currency.

I confirmed her diagnosis and added an even harsher prognosis of my own: the dollar would keep losing value, although it was hard to say whether this descent would be gradual or abrupt or just when it would come to an end. (4) I advised her to move part of her savings from dollars to euros and to put that money into European securities with a five-year term. That seemed a prudent period, given her advanced age and the fact that economic forecasting is a lot like weather forecasting: we know that there's a risk of bad weather, but we can't be sure whether the clouds taking shape on the horizon portend a passing storm or a tropical cyclone. I went back to my sailing yarn: it's best to stay protected in a good port, evaluate the situation, and wait.

That said, I made it clear that this time we weren't dealing with an isolated storm on the periphery, but a global imbalance that, while based in the Pacific, will make its first serious disruptions felt in the Atlantic. Through the purchase of securities and bonds, China, Japan, and others Asian countries lend money to the United States in order to ensure the maintenance of a high level of consumption and, in turn, the absorption of the huge productive surplus from Asia. The low interest rates in the United States enable citizens, through commercial, personal, and mortgage credit, to indebt themselves by consuming. Until now, this imbalanced flow has been sustained without too many glitches, with low inflation and cheap money. But, inevitably, two simultaneous phenomena occur at the poles of the system, as the diagram I drew for Doña Rosa indicated. On one side, the Asian economies develop, and a huge productive surplus builds up in the Pacific sector. On the other side of the ocean, public and private indebtedness increase and bubbles of fictitious capital form (5), for instance, the rise in real estate values, mainly mortgaged properties.

This upward spiral is dangerous, just like the initial phase of a cyclone's growth. The imbalance generates pressure on the dollar that prompts its devaluation. The Asian countries resist revaluing their currencies, since this would lead to an increase in the prices of their products, and consequently, a reduction in their exports, as well as a significant cut in the value of their securities held in dollars. With good reason, they advise that the United States reduce its fiscal deficit; in other words, that the government of the world's superpower spend less. But, taking US international policy into consideration and, particularly, enormous military spending, that common sense solution becomes problematic. "War is costly, even more costly when you don't sacrifice consumption," I told Doña Rosa. The great North American geopolitical dilemma can be summed up in a few words: indebted consumption + a war without more substantial sacrifices = the crisis of the dollar. That is inevitable in the long run.

"Sooner or later someone has to pay for the broken china," said Doña Rosa astutely. "For the moment," I answered her, "the Europeans are the first to feel the effects." With a more expensive currency, they will see their exports cut and a reduction in their economic growth. Thus, European opposition to unilateral and aggressive US foreign policy gets wedded to economic resentment.

The geopolitical corollary is clear and not very promising. The great Atlantic alliance that materialized after World War II is breaking up. But this Atlantic storm whose first rumblings are now being heard, though serious in itself, does not carry with it the potentially devastating force of a typhoon in the Pacific. This kind of storm could strike the day that Japan and China convert their reserves to other currencies, and move their investments to other markets. But between now and then, there will be many ups and downs in currencies.

Doña Rosa looked a little perplexed and promised, for the time being, to watch the currency markets.

Notes

(1) Consumer spending, valued at 11 trillion dollars, represents two-thirds of the North American economy. This is also, coincidentally, the amount owed to foreign creditors. Economists have long maintained that the United States acts as the global economy's "locomotive." This situation will persist until the day when China, with a billion potential consumers, becomes the world's principle economy.

(2) It is very probable that in the future the dollar will cease to be the only reserve currency. The world economy will move to a tripartite system of reserve currencies: the dollar, the euro, and the Yuan. This system will be part of a new "multi-polar" world order already heralded by the French president.

(3) Doña Rosa's thinking is not too far off the mark. In the United States, the average family shells out 13% of its earnings, after taxes, to service its debts. The great majority of this money goes toward paying mortgages and car loans, but aside from that, each family has an average of $8,000 in credit card debt, which carries a much higher interest rate. What's at stake is nothing less than the future of the North American middle class, the main pillar of national identity. Today, more than 75% of middle class family income is dedicated to covering fixed expenses (mortgage, car loans, child care, health insurance, and taxes) compared with only 50% of income thirty years ago.

(4) My own estimate is that, for the time being, the North American Federal Reserve will let the dollar continue to lose value, in spite of the reticence of the Central European Bank and the Bank of Japan. When it reaches a floor of $1.40 per euro, the political pressure for coordinated

intervention from the North's central banks will become stronger. But, we should not rule out an even greater drop, down to a rate of $1.70 per euro.

(5) The concept of a "fictitious economy" was introduced by the Chinese strategist Wang Jian in an article published in 2003 in the magazine The Value of Singapore titled "The American War: A Chinese View."

Chapter 2

The Great Illusion

The economic crisis unleashed in the US commenced in one sector of the economy and then spread out fast to other sectors and the global markets. This contagion is a symptom of an imbalance at the foundation of the system, the cause of which is unsustainable growth based on indebted consumption and speculation. The inevitable, painful correction, however, is an opportunity to reaffirm the basic principles of healthy development, which are not only economic but also moral principles.

The US economic crisis, which started with the insolvency of the most modest home mortgage holders, i.e. in one corner of the economy, spread out very fast throughout the financial sector, caused the precipitous decline of an already weakened dollar, and ended up producing unrest and suspicion –specially uncertainty– in all global markets.

When a minor cause produces major effects, that very disproportion is a symptom that the great underlying structures are weaker than we had believed.

In the US there is no more talk of a "soft landing": we are in a full emergency landing. Economic difficulties are already affecting quite elevated sectors of society. The Stock Exchange is performing miracles and still has a debit balance. The dollar loses its value day by day. The mortgage crisis has turned into a collective panic. And on top of this all, according to the opinion of economists Joseph Stiglitz and Winda Bilmes(1), the disastrous war in Iraq has an estimated total spending of 3 trillion dollars.

Washington no longer hears the Republican siren song promising, inwards, prosperity without sacrifice, uncontained spending, tax rebates and even total exemption and, outwards, universal arrogance, to end up proclaiming *urbi et orbi* the great commandment of the times, which repeated an insolent 19th century French motet: *Enrichissez-vous messieurs*!

The different speculative bubbles have burst one by one (a preview that the next one to burst, in no more than a year, would be the so called commodities boom -of metals, hydrocarbons, meat and grain- that greatly affect the countries of the South). The bubbles being dispelled, a more dire reality can be seen –so far concealed by the uninterrupted chitchat of the media.

May the reader think for a moment that of the 300 million individuals who live today on US soil, 37 million (many of them children) live in absolute poverty? These are the needy. Let us add to them the ones who live on an annual income ranging from 20,000 to 40,000 dollars (for an average four-member family): another 60 million. The result is quite unpleasant: in a country that claims to be the richest in the world, almost one third of its population lives either in indigence or very close to it. The expression "close to poverty" is not a euphemism. All those individuals who earn an annual income below the 40,000-dollar thresholds have precarious jobs– their salaries not increasing at the same pace as inflation–and insufficient health coverage. They find it increasingly difficult to meet their food, health, fuel, transport and education expenses. This third of the population is prey to fear: fear of the future, fear of globalization, fear of foreigners, fear of immigrants. Suffering and fear are legitimate, but they are also fertile ground for demagogic mobilizations.

That fear that springs from the bottom of society is already reaching the middle class sectors –that is to say, those whose annual income ranges from 50 to 100 thousand dollars. Those strata, that constitute the American proverbial middle class, have been the object of some sociological studies, but in general they have not received the public attention they deserve. I dare risk the following diagnosis: the middle class, an emblematic figure of the Northern civilization, is subject to:

- A strong social compression. And
- A steady collective intergenerational descent.

I explain what this means in the following lines.

50 years ago middle-class Americans could rely on satisfactory and stable jobs, on prospects of significant salary improvements, and on the hope for an even better future for their children. They could count on a nice house in the suburbs, one or two family cars, a mortgage amortized over 30 years, and a free-from-anguish retirement at the end of the road. In general, only one adult in the family (of an average four-member family) would work. Nowadays, those jobs have become scarce.

To cope with this shortage of good, safe jobs, the middle class was forced to use other strategies. In the average family, instead of only one adult member being employed, now there are two working members. Wives and mothers started to work. Since, in general, every cloud has a silver lining, this need for a double income was seen as one step ahead in the fight for gender equality, and as women’s liberation from their traditional family roles. Yet, the harsh reality was that now to keep the same standard of living two jobs were needed where before one was enough.

Also, men and women started to work longer hours and to have shorter holidays. In some cases they had to handle several jobs at a time. In short, they all had to march faster only to remain in the same place. The image that comes to mind is that of a whole social class put to run in a gym. Economists hailed the fact when they verified an increase in productivity: once again, every cloud has a silver lining.

Finally, individuals and families resorted to personal and mortgage credits to keep the standard of living they were used to. Rather than saving, they ran into debt more and more. The American dream started being paid for in multiple installments. All these factors, together, make up what I have called “the middle class social compression”. This compression leads them, at the same time, to the suspicion or the fear that their children will not enjoy a more comfortable life or a more prosperous or stable future. Such is the meaning of what I call “intergenerational descent” –an unprecedented pessimism in a social class that was traditionally devoted to the idea of progress in every domain.

Further above, in the sector of society we may call the leading sector, power elite or dominating class, an impressive, alarming change of habit has occurred in the last years. Less thought is given to (and less is invested in) the interest of the country and the system as a whole than to the immediate or short-tem benefit. Last decade's public policies were characterized by a great “upward” transfer of wealth, a systematic decrease in the tax burden imposed on the wealthiest sectors, and a huge national indebtedness. Ultimately, there has been a transfer of all major collective problems–including environmental contamination, the ageing of infrastructure, the retirement system, public health, and debt servicing–from the present to the future, i.e., from those living today to those who will live tomorrow. We cannot be surprised if those policies are increasingly rejected by several population sectors (within which I am included) because they have gone against a basic principle of human development, which means something more than living one’s own life to the fullest (a highly commendable aim). It also means making sure that those who come after us on the road of life may live as well as, or better than, us. From an economic point of view, this goal has a name: sustainability. From a moral point of view it is called intergenerational solidarity. They are two faces of the same coin, and it is precisely that coin what is at stake in the United States in the year 2008.

Economic categories are also moral categories. Adam Smith, modern economy's founder, did not teach "Economic Sciences" in his native Scotland. He lectured in "Moral Philosophy". He did not believe his best work to be *The Wealth of Nations*, which made him famous, but a treaty he entitled *The Theory of Moral Sentiments*. With the consent from Smith's classic economy, we can say that "investing" means, "giving something to the future". By contrast, running into debt implies "taking something away from the future". We can see a moral dilemma cropping up right away from this basic economic conceptual opposition.

When we say that the high level of public and private indebtedness is "alarming", we mean to say that, over at least one generation, Americans have swindled their own future to live only in the here and now. (The Argentines reading these lines will recognize the subject very well). Economic development depends on the investment level both in physical capital (technology, infrastructure, systems and machines) and in human capital, which is nothing else than our knowledge and our good health. When instead of investing in these two types of capital, the physical and human infrastructure is overlooked, the work force is "compressed", exhausted and demoralized (the social class in the gym). We are thus led to the temptation of concealing the situation with an illusory wealth based on borrowed money. Yet this way a country ends up stealing from and deceiving itself, and leaving its descendants a very heavy burden.

Today we have come to the end of a great illusion: living on borrowed money on the basis of a fictitious capital. Credit cards hit a limit, mortgages have to be repaid, houses are worth less than what was borrowed to buy them, foreigners are reluctant to lend in exchange for treasury bonds because they receive promissory notes in devalued currency. In addition, an ill-conceived and ill-executed war absorbs ever-greater resources. In sum, who pays for the waste and for the "broken dishes"? The reckoning has begun.

Every severe crisis is also an opportunity. It is, above all, the chance for having a great collective awakening. That is why, in the middle of a crisis, many who were the victims of concealment or bad faith, deep down feel liberated. The truth, even when tough, is always a catharsis. Today the catharsis starts by acknowledging that a country– from the most powerful to the least powerful– makes progress with an educated, skilled and dignified work force, with a high level of investment in infrastructure and technology that may secure a long employment chain, and with a fair and progressive tax system that may actually gather the funds required to pay government services. After so many years of wild illusions, some view this prospect as a "rude awakening". But it is not that way. All things considered, this one is also a dream: a healthy dream, one that has always been known as the American dream.

(1) Joseph Stiglitz and Linda Bilmes, *The Three Trillion Dollar War. The True Cost of the Iraq Conflict*, New York: W.W. Norton, 2008.

Chapter 3

The Two Sides of the Crisis

危机 (Wei ji). In Chinese, the word denotes, from its first character, "crisis" and from the second character, "crucial or opportune moment." What opportunities appear in the present global economic crisis? What are the most promising solutions of the many that are being proposed? Under which cover or pretext will they be enacted? I will risk a preliminary forecast: do not expect the birth of a radical "new model" for the economy, but a new way of connecting its principal sectors. I propose the word synergy as a name for these processes

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Just like with a coin, the planetary crisis that engulfs us has two sides. "Tails" is the side on which the actual value of the piece appears. In our case the numbers are all negative: employment, economic activity, profits, savings, stock values, available credit, exports, and son on. The other side of the coin, "heads", is usually an effigy, a face or a figure. Here we can see a serious but hopeful countenance. The double-side configuration is nothing new, of course, but a very old numismatic convention. Let us then think about the predecessors of our current crisis.

The Great Depression of the thirties, which also began in the United States, was not only a period of hardship and unemployment –it was a fertile era for social innovation as well. As a response to the economic and social crises of that era, social movements and governments initiated a veritable cascade of novel programs and experiments. Many of them became, with the passage of time, solid institutions that have survived until today and which in fact are preventing the current crisis from deepening further. Social Security (the national inter-generational retirement plan of the US), the Securities and Exchange Commission (a regulatory body to the more dynamic markets), the Federal Deposit Insurance Corporation (which protects deposits from the failure of banks), are all social inventions designed to protect individuals from catastrophic mishaps and the infirmity of old age, but also to protect the economic system in which the individuals interact.

These and other institutions were established to cushion the system from financial crashes followed by a deflationary spiral. Without them today the bank deposits of millions of citizens would be blocked or lost, unemployment would easily reach a level of 25% or more, and retirees would lose their livelihood, their homes, their health, and what remains of their lives. In other words, without these buffer institutions established in the thirties, the United States and other advanced economies would be in 2008-9 in a similar situation to that of Argentina in 2001-2. Other programs instituted in the thirties, such as the Work Projects Administration (WPA) and the National Recovery Administration (NRA) were terminated as soon as the economy showed signs of recovery at the end of that fateful decade.

In another chapter I consider the prospects for a repeat of the largest public works program of all –one that many argue finally pulled the American economy out of the Depression, namely security preparedness and the mobilization for World War II. It would be absurd and even perverse to recommend a repetition of that titanic *casus belli* in this century. Luckily, the type of post-industrial and global production of present-day economies prevents a mass mobilization of mid-twentieth-century proportions. But we should not forget the fact that large-scale war effectively got rid of the unrealized surplus of the economy, eliminated idle capacity in factories and enterprises of all kinds, fostered the full employment of the labor force, and ultimately made it possible for the United States to emerge from the conflict some 300 times richer than it was at the beginning, thereby assuring its world hegemony for the next fifty years at least. That experience cannot be repeated, and it is a good thing that it cannot be repeated. But many of the social, economic, and technological programs that will be set in motion in the coming years will need an international "security" legitimacy to overcome ingrained social habits, vested interests, and ideological prejudices. They will represent a form of near-total social mobilization to face environmental risks and security threats in a world in which local crises easily metastasize into global emergencies. I will develop this argument in a forthcoming book on the future of warfare.

The current consensus among economists (with all due reservations, since these gentlemen have demonstrated a predictive acumen comparable to that of my late aunt Emily who read the future in tea leaves) is that our global economy is not doomed to the same fate as the world economy of the thirties. Nevertheless, the collapse of the financial system and the freezing of credit are as real today as they were then. The trail of consequences is being felt in the "real" economy, and its impact has only begun. There will be more dramatic failures of enterprises and markets in the near future. Some of the symptoms are visible already: rising unemployment, consumer diffidence, mortgage foreclosures, and the imperative need of retirees to return to work, if they can find work, in order to make ends meet. Savings have evaporated; investments are stalled, and money, when available, is being hoarded rather than put to productive use. Under such conditions, the public sector has moved from being a guarantor of last resort to being a first responder. The specter of socialism has returned to haunt the capitalist economy, not as a gravedigger but as a welcome rescuer.

Longer-term consequences are more difficult to fathom, but they are even more important than emergency measures. There will be at least a partial nationalization of the banking sector, a greater regulation of financial flows, a greater public control and accountability of private economic transactions, and a greater demand for public services, since demand for other goods and services has experienced a precipitous drop. There will be also a greater demand for services provided by the "third sector", that is, nonprofit organizations, from private foundations to churches and civil-society organizations. But here again, and in a process similar to that of the private enterprise sector, we must expect a concentration and consolidation of resources.

It is astonishing to behold how governments which until recently professed a devout commitment to free unregulated markets are now intervening with force and gusto in the economy. They do not hesitate in launching programs that hitherto they would have denounced as bordering on "communism." Robust state intervention has ceased to be a bad word. In the United States alone, the Bush administration, never suspected of socialist leanings, has turned its policies 180 degrees on a number of fronts, from bailouts to direct state control of economic enterprises, in particular to help ailing financial and insurance companies, with such strings attached as government-mandated limits to CEO compensation. These are hard times indeed when a right-wing Republican administration takes "national and popular" measures.

At the state and local levels, authorities are also taking measures unusual and "radical" in the American context. Thus, the sheriff of County Cook, in Chicago, issued order to his deputies not to enforce home foreclosures, and leave families in their places of residence, which they can no longer afford. Overnight, an American city became *peronista*. Of course nobody knows if all these measures and gestures will stop the decline in economic activity. So far, from the top officers of administration to local authorities, those in charge are improvising, playing by ear.

We have entered an era of fear and uncertainty, but also an era of opportunity. In the middle of a great crisis, people search for solutions "out of the box" of standard proven responses. New ideas on how to work, how to use transport, how to consume energy, and how to govern communities are already appearing in articles, editorials, think-tank proposals, and government task forces.

In many parts of the world, the public asks what is the proper role of governments, what is the social responsibility of enterprises, what is the proper role for NGOs. We are moving from a concern with private troubles to a debate on public issues. The time has come for many people to consider the meaning of economic success, for questioning the underlying values of hitherto unexamined pursuits. What is freedom, especially economic freedom? Until recently, our economic understanding was that it was freedom from regulation and public intervention, that is, freedom from, but, except in the narrow sense of self-advancement, we did not ask what freedom is for in a social world that is not just a sum of its parts. Can the market alone provide us with health, education, and well-being? What are the different meanings of "the pursuit of happiness'?

The answers to these and related questions will not necessarily lead to a new super New Deal. The experience of the last half-century has shown that the responsibility to solve social problems does not rest exclusively on the shoulders of government. But more recent experiences have shown also that the private sector can also fail, and fail quite miserably.

What I see in front of us is a new compact between the public, the private, and the non-governmental or "third" sectors. Each sector has some answers to our plight, but none has all the answers. There are no monolithic solutions to the crisis. The challenge is to know who does what things best, and how to combine the diverse provenance of excellence. This art of combination and collaboration between countervailing sectors and groups deserves a specific name. I call it synergy.

Chapter 4

Socialism Where Least Expected

When the markets fail, especially when they fail big, the public sector comes to the rescue. The big winners of yesteryear wish to socialize their losses. This "lemon socialism" amounts to the proverbial "heads I win; tails you lose." But the very state that is called upon to intervene has been weakened by decades of ideological demonizing and practical sabotage by those who now seek bailouts.

The great global crisis that began in the United States with the burst of the real estate bubble has required the state to nationalize large financial enterprises and socialize losses. This amounts to a kind of top-down, rescue socialism. We cannot be sure if these measures will suffice to cure capitalism of its excesses, but it does seem like a new world order is taking shape, one where socialism complements capitalism.

When the Soviet Union collapsed, taking with it a model of state socialism that had nourished the hopes of many during the twentieth century, a Russian sociologist and friend of mine made the following comment, which I will always remember: "The Cold War was a tango between two dancers. One of them has fallen. When do you think the other's time will come?" It was not clear if he was referring to Russia and the United States or to the systems that each represented: communism and liberalism or, if you prefer, communism and capitalism. Confronted with this quandary, I responded with another question, perhaps tinged with sarcasm: "In your opinion, was it communism that ruined Russia or Russia that ruined communism?" To this day, neither my friend nor anyone else has offered satisfactory answers to these questions. Nonetheless, 18 years after the end of the Cold War, the U.S. economy is experiencing a crisis whose severity has put in jeopardy the entire global capitalist system.

The world has not seen a similar collapse since the Great Depression of the 1930s. Just as during that era, confidence in the munificence of capitalism is losing ground day by day. It remains to be seen whether the root of the crisis lies in the mismanagement of the economy by the heretofore-hegemonic power (in other words, whether the crisis owes to a peculiarity of what the Europeans call America's "savage capitalism") or whether the problem is inherent in capitalism itself, beyond any national idiosyncrasies. In any case, it is little use speculating about the origins of the outbreak when it has already reached epidemic proportions. Just as in the 1930s, today there are voices clamoring for swift and energetic state intervention. But the analogy ends there.

In contrast to the 1930s, when communism was still in its adolescence (it had already shown signs of brutality but not of inefficiency), today no one is seriously proposing alternatives to the reigning economic system. Since Margaret Thatcher and Ronald Reagan proselytized the virtues of economic liberalism, a philosophy which Thatcher synthesized in the acronym TINA ("There is no alternative") and which was internalized in the subsequent two decades by elites in the East and the West and both Northern and Southern Hemispheres, no other economic model has proven viable.

There have been, without a doubt, reactions against the excesses of neo-liberalism in those Southern countries that experienced severe crises, as well as experiments with state policies quite distinct from those once extolled by advocates of the "Washington Consensus." Nonetheless, in my opinion, these oppositional policies are, in fact, parasitic, i.e. dependent on the smooth functioning of global capitalism in the great centers of economic growth. These experiments – whether called socialist, populist or nationalist – have depended on markets for their natural resources, particularly energy and commodities. (1) There is no geo-strategic equivalence between the nationalizing and redistributive polices of those countries that export oil, gas or soy, for example, and the inverse historical movement, i.e. the transition from a state socialist model to a capitalist market model that has been underway in the People's Republic of China since the rule of Deng Xiao Ping. (2)

But now the kind of crisis that once affected only peripheral countries, the so-called "emerging markets," has turned its fury on the very center of the system. In order to rescue this system, the principal managers of global capitalism – political leaders, central bank officials, treasurers and large investors – are recurring to any and all state instruments at their disposal. In short, capitalism's own elites want the state to take responsibility for unpaid debts, bankrupt banks, depreciated titles and devalued capital goods that the free market itself cannot absorb without risking paralysis. Put simply, they want to socialize their losses.

Many years ago, the celebrated Canadian-American economist John Kenneth Galbraith, declared, with customary flair: "In America, the only respectable type of socialism is socialism for the rich." Just a few years after his death, this prophetic declaration is being fulfilled. It would seem that the 21st century socialism in the North is not Bolivarian but Washingtonian: It is not an egalitarian socialism but rather a kind of financial, rescue socialism. This brand of socialism does not go about shirtless and in work-boots; it wears Hermenegildo Zegna suits and Salvatore Ferragamo shoes.

Right now, the United States is presenting the world a drama in several acts, the first of which has just opened. What makes this drama especially compelling is that the financial crisis coincides with imminent elections for the nation's highest office.

In one of the several episodes of political theater, we saw the defeated-looking ex-president Bush meet with his two potential successors, congressional leaders from both parties and an entourage of state officials, all of them reciting grave warnings, brows furrowed, about the pressing need to act during a state of emergency. The names of these officials have become global public knowledge, as if they were Hollywood stars or soccer players: Besides Mr. Bush, whose name is already slipping irretrievably into the past, the protagonists include Hank Paulsen, Ben Bernanke, Nancy Pelosi, Harry Reid and, of course, candidates Barak Obama and John McCain. At this stage of the game, their message is plain and simple: "We need to immediately approve a rescue plan so the state can buy, with taxpayer money, the bad titles and stocks that are currently paralyzing credit and, in turn, all of economic activity." Those of my readers who are fans of Argentine history will remember the words of the Argentine 19th century statesman Domingo F. Sarmiento: "When it comes to governing, things need to get done, whether it be well or poorly." Those who are fans of political theory will remember arguments in favor of a states of emergency expounded by advocates from Thomas Hobbes to Carl Schmitt.

Nonetheless, rescue socialism, i.e. the respectable intervention in the marketplace by the respected Treasury Secretary and ex-CEO of Goldman Sachs, Henry Paulsen, with the aid of Chairman of the Federal Reserve Ben Bernanke, a respected former economist from Princeton and expert in, of all things, the Great Depression of the 1930s, met with stiff resistance in the House of Representatives, where the rescue plan was initially vetoed by a thin margin. This rejection came not from what passes in the U.S. as the "left," i.e. the liberal wing of the Democratic party, but from the right wing of the Republican Party, i.e. the ruling party. The message was as clear as it was extreme:

"Let's let the market take responsibility for its own errors. The state must remain strictly out of the equation."

This argument repeats nearly verbatim recommendations given by another treasury secretary. Andrew Mellon, in response to the bank crisis of 1929-1932, offered this advice: " Liquidate, liquidate." In other words, "May those who deserve to go broke, go broke." What happened next is a piece of history: the six-year Great Depression, which ended only when World War II set back in motion America's industrial machinery. Eventually, someone convinced the resistant representatives that a serious leak threatens to sink the whole ship and that those who do not learn from history are doomed to repeat it. A modified rescue package passed a new vote and was approved on October 3, 2008. We will come to remember this date as the birthday of rescue socialism.

So, where do things stand now? The new American-style socialism is the work of a pragmatic, capitalist elite. Suspicion and resistance spring from several sources: popular segments who still adhere to extreme market fundamentalism, as well as broader segments who see their retirement assets dwindling and their jobs threatened, who have less and less buying power, who fear getting sick because they are uninsured and who hold out little hope of progress for their children and grandchildren. As the crisis evolves, it is possible that resistance to "Wall Street greed" will migrate from its right-wing populist base and re-center itself in more progressive circles. But this is not yet certain.

Complicating the current economic crisis is a simultaneous crisis of leadership. After certain concessions, a bipartisan coalition of party elites initiated a rescue plan, with hopes of gaining a little breathing room until after the elections. Only after these elections, whose results will be of paramount importance, will we be able to gauge the longer-term prospects of the global system, its reform and the geo-strategic re-composition of the planet. It is important now, however, to begin to survey those prospects and to ask ourselves what role the Southern countries will play after this crisis is over. This will be the material for further research. On that note, I will make one last observation.

The new rescue socialism that Americans have discovered shows a peculiar contradiction. After spending a quarter century trying to dismantle state machinery and vilify state intervention in the economy, big capitalism – in response to a huge financial stumble and the first great crisis of globalization – has turned to the state for salvation. But it finds a state with precious little management capacity. During Bush's presidency, the U.S. has proven dreadfully ineffective at fighting wars (the occupation of Iraq and the war in Afghanistan offer resounding proof), at mobilizing in the wake of natural disasters (the destruction of New Orleans by Hurricane Katrina), at rationally limiting spending, at providing healthcare and at many other undertakings. After the desperate measures represented by the current rescue package, the firm hand of a true reformist, someone along the lines of a Franklin Delano Roosevelt, will be needed to rebuild the state.

At this stage in history, we know that socialism is not a viable global alternative to capitalism, but it seems increasingly evident that socialism does provide a necessary complement. While capitalism may be the locomotive of growth and prosperity, it falls to socialism to provide the tracks on which this engine runs. A bullet train without tracks is bound to derail. In 1990, a financial crisis – similar to that afflicting the U.S. right now – occurred in Sweden, a corner of the world with little geopolitical repercussion. But the example remains relevant. In the case of Sweden, the state came to the rescue, with swift and effective "socialist"-type interventions. For many years now, Sweden has complemented its vigorous capitalist economy with socialist measures. Has the time come to reconsider the Scandinavian model? With that possibility in mind, I have begun to study Swedish. *Jag talar och skriver liten svenska*. (3) However, deep cultural differences remain. In a pinch, the Swedes had the government take over the banks. In a pinch, the Americans will let the banks take over the government.

Notes:

(1) It is interesting to note how those in the "rebel," petro-state capitals – whether Moscow, Tehran or Caracas – who rail out most vehemently against Western capitalism reduce their rhetoric every time the price of oil, or commodities in general, drops. At the same time, it must be noted that the Southern countries continue to finance the deficit in the Northern countries by investing their accumulated export reserves rather than applying them to their own markets. The surplus funds are deposited in the U.S. and the European Union.

(2) The 2008 Nobel winner Paul Krugman calls it "lemon socialism."

(3) The best study on the characteristics and evolution of Chinese capitalism, particularly the continued role of the state, is Yansheng Huang's *Capitalism with Chinese Characteristics: Entrepreneurship and the State*, Cambridge University Press, 2008.

(4) Translation: “I speak and write a bit of Swedish.”

Chapter 5

The Fading Remedies of War

“Marlborough has left for the war” is one of the most nursery rhymes in the French and Spanish languages. English speakers will immediately recognize the tune in the well-known song “for he is a jolly good fellow.” It is the burlesque lament on the presumed death of John Churchill, first Duke of Marlborough, in the battle of Malplaquet in 1709. Today’s Marlborough leaves for a new type of war –uncertain, and confused to the point that the word itself loses its meaning. This note seeks to take a peek into the future of armed conflict in the 21st century.

When Franklin Delano Roosevelt was inaugurated as President in 1933, the U.S. was in the throes of the Depression. His New Deal was a collection of bold attempts at rescuing the sinking economy. They had mixed results, and the economy did not recover in a serious sustainable way until 1943. That was in the middle of WWII. Ever since, historians and economists have argued whether it was the FDR reforms or the war itself that did the trick --but it took ten years.

As we revisit that period to discern lessons for our present predicament, it behooves us to ask again about the remedies of war in a sick society. I am skeptical --less about then than about now.

When Al Qaeda attacked the U.S. homeland on September 11, 2001, it hit two targets of the three seemingly intended: Wall Street and The Pentagon (it also aimed possibly at the Capitol Building or the White House). In doing so, however, the non-state organization hit neither nerve nor muscle, but symbol and fat. As Michel Foucault said many years ago, power does not reside in institutions with a fixed address, but in networks and relations. It did succeed, however, in shocking the world with a bloody and spectacular publicity stunt, and it managed to bait the most powerful nation into declaring a “war on terror” which distorted the meaning of the first noun beyond recognition.

Blinded by the sneak attack, the United States reacted like the giant Polyphemus when wily Odysseus and his itinerant crew struck him. It embarked upon a conventional war of choice against the wrong target: a dilapidated third-rate power that soon morphed into a site of protracted unconventional violence. Unprepared for the latter, the occupying nation managed it so poorly that in the end the largest power on earth jeopardized the armed forces, lost prestige, and drained the treasury. Several hundred thousand troops in rotation, “network-centric” warfare with space-age technology, pilotless aircraft, precision-guided munitions, and a budget upwards of 400 billion dollars have had a hard time managing 20 to 30 thousand insurgents armed with simple or improvised lethal devices, who choose where to strike and how.

The 9/11 attack and its aftermath –especially the fiasco of Iraq-- forced into the open a realization that had been gaining ground among serious military analysts and historians, but which had remained largely hidden from the public in developed societies –namely that the classical notions of strategy taught for generations in military schools were woefully inadequate to deal with the realities of 21st century conflicts.

War, as we have come to know it in the period between 1648 and 1945, is ever more manifestly an obsolescent institution. Others more capable than I have analyzed this evolution or involution into near-extinction.[1] As is often the case with declining institutions, its specific defeasance is marked by the abusive extension of the word to cover metaphorically very different phenomena. We have had a war on drugs, a war on poverty, and of course, the war on terror. We may soon add to the list of *guerres du jour* a war on economic depression. The targets are the windmills of Don Quixote.

At the same time, both rich and developing nations insist in procuring weapons systems that are exquisite, expensive, and largely useless, and in maintaining military establishments whose main role in the "low-intensity" conflicts that rage around the world is that of "observers" and "peace keepers", impotent before civil wars, insurgencies, ethnic cleansings, and genocides.

Non-state actors wage war against each other and against organized states. As the cities of New York, Madrid, and London know, these actors are no longer kept at the gate of the "civilized." Like other global networks like Nabisco or Mitsubishi, they too no longer respect borders, civilian/military distinctions, or transcendent symbols.

There is therefore a serious disconnect between the new challenges and the conventional responses. Most defense establishments are beholden to the realities and the ideas of yesteryear while violent conflicts of a different kind multiply like maggots in the bodies of failed or weakening states. Do these conflicts merit the label of "war?" One is hesitant to employ the word after it has been subjected to so much abuse. However, we may keep it if we also keep in mind at least the following features: (1) it is organized violence waged by non-state actors, (2) it confounds civilian and military distinctions, (3) it is global (it knows neither physical nor symbolic borders), and (4), it is more expressive than instrumental (more an end than a means). Before this reality, the world of *Realpolitik* --a bunch of nation-states claiming a monopoly of legitimate violence over fixed territories and fighting over their respectively perceived interests--must adapt both adequately and fast, or it will sink into irrelevance. This is easier said than done. The old aggregates persist; military-industrial complexes are hard to reform and redirect. Above all, mindsets are hard to change.

And yet, a window for reform is now opening with the global economic crisis. After years of unfettered growth in military budgets, not only in the extant superpower –the United States-- but also in China and in resurgent Russia, as well as in aspiring regional powers (whose military ambitions are often fueled by petro-dollars) the sharp global economic downturn will have a serious impact on weapons procurement. In the United States alone, the Pentagon's annual base budget for standard operations has reached half a trillion dollars, the highest since World War II. And this excludes investment in new weapons. The question is no longer whether large defense budgets will break the bank, but how to manage military expenses after the bank is broke. And behind these queries looms the biggest question of all: What will be the role of war preparedness in the large public works programs that will be needed to jump start stalled economies?

Across the military services, meetings behind closed doors are devoted to figuring out where and how to cut spending. Therefore this is a moment of rare candor in the military establishments about the scope and nature of warfare in the 21st century. Nothing like a serious crisis to focus the strategic mind. Beyond the dilemma of cutting here or there, muscle or fat, the more important issue is how to redesign and redirect the whole expenditure effort, so that it is more rational and useful and less inertial and useless.

At the moment, the most likely targets for cuts are likely to be the expensive, super-sophisticated arms programs that constitute the theoretical pride of a super-power. Given my argument before, this is all for the good. Weapons systems are to our societies what pyramids were to the Egyptians. In the United States, some of these programs have had cost overruns estimated in the hundreds of billions. As a result, in the US

Congressional watchdog offices are poised to reduce spending for advanced combat systems, and such jewels of the arsenal as the Air Force's Joint Strike Fighter, the Navy's latest-designed destroyers, and the very missile defense system that has soured relations between the U.S. and the Russian Federation. The time has arrived to ask what purpose do these weapons systems serve, and even whether they have any manifest purpose at all.

The other big ticket in military expense, also outside the budget for standard operations (the Bush administration has accomplished the unique feat of keeping two ongoing wars out of the regular budget), is the "supplemental" spending for the wars in Iraq and Afghanistan, which is running in excess of $100 billion a year. The central fact about these wars is that, despite the enormous resources thrown at them, they never have come near to what even remotely could be defined as "victory" for the powers that wage it. Contrary to politicians back home, no responsible commander in the field uses the term. The asymmetry between expense and "payoff" also prompts doubts, in these times, about the functionality, sense, and purpose of war, as we have known it through the ages. In short, both high-tech in the skies and boots on the ground do not seem to do the job they are supposed to do.

What therefore is to be done? The first job is to recognize that the challenges are complicated –a puzzle of pre-modern violence and post-modern networks. The second job is to acknowledge that all military establishments –and preeminently that of the extant superpower—are not equipped for the task. The Pentagon does not have enough troops and equipment to remain in Iraq and fight in Afghanistan, let alone to face additional crises elsewhere, should they break out. If 685 billion dollars (the budget for 2008) cannot do it, what will? Having other nations –actual and potential allies—add their resources to the pot will not help: their combined defense budgets are smaller than the American budget. One cannot keep feeding a dinosaur.

It is clear that it is not an issue of resources but of design. The third job therefore is to rebuild and reshape the military establishments to face elusive enemies and disparate dangers, which morph like retroviruses. As Ulrich Beck has proposed[2], we are in a global risk society and no longer exclusively in a system of states. What remains of the latter is itself evolving with the emergence of regional powers such as China, Russia, India, Iran, and Brazil; with the instability –and therefore unpredictability- of other significant nations like Pakistan and North Korea (significant insofar as they have a limited nuclear capability); and finally with a number of failed or failing smaller states. NATO and the United States must devise a strategy to deter, contain, and co-opt these state actors. Conventional wars, and even a nuclear one, may yet break out in the rimland of the system of states[3]. In this geopolitical fault line containment and deterrence are essential, aggression and confrontation a mistake. The one lesson of Iraq is that pre-emptive wars of choice are likely to turn into strategic disasters, because they breed a different type of challenge, namely insurgencies, where the odds of "winning" are low. Moreover preemptive doctrines set a dangerous precedent: if one state launches one such war, others will feel equally entitled. That is a sure path to Armageddon. If Iraq has taught something it is this: nation busting followed by (usually botched) nation building is putting the cart before the horse. Here strategic retreat and increased diplomacy will be required. Paradoxical as it may sound, such strategic retreat will result in the regrouping, repair, retraining, and *enlargemen*t of ground forces.

The biggest challenge is of a different order, though related to the evolving system of states. It has appeared in its crevices and will continue to grow. It is by no means new, but has acquired a new significance. It goes by the names of irregular warfare, insurgency, or the far less apt one of "terror." As Martin Van Creveld has observed, manuals on counter-insurgency fill entire libraries, but most should be discarded, for the simple reason that they have been written by the losing side. To date there is no silver bullet in this type of war: the two or three success stories since 1945 are very context-specific and disallow sweeping generalizations. The lessons learned are somewhat modest and few. Moreover, they are at opposite poles of the spectrum: from swift and brutal suppression to slow and patient reconciliation. One thing is clear however: this kind of warfare has as much to do with intelligence gathering, police operations, and social science understanding (from anthropology to economics and political sociology) as with killing the enemy.

What we are likely to see in the near future is the interpenetration of military and civilian programs, and the militarization of foreign aid and poverty reduction --in the words of the president of the World Bank “bringing security and development together.” Given the financial crisis and the ensuing deep recession that has engulfed the world, homeland and international security will be the mantle under which new public works projects will be undertaken. Just as war preparedness was the public works projects that finally pulled the United States out of the Great Depression, so will an updated type of war preparedness help pull the global economy of our times out of the doldrums. But it will not be mass industrial production for a titanic combat –Rosie the Riveter helping produce 100,000 combat planes a year-- but a different sort of mobilization, aimed at conflict prevention, poverty reduction, and the propping of failed states. Just as the Pentagon will become partially a development agency, so will civil society (thousands of civilian experts and volunteers) be summoned to collaborate in the containment of new wars. These will include economists, public administrators, public health experts, agronomists, city planners, social anthropologists, political scientists, and sociologists. And just as there will be a certain “civilianization” of the armed forces, so will there be new agencies like the proposed Civilian Reserve Corps.

The new Pentagon and its counterparts elsewhere will focus less on classic war toys (like blue water fighting vessels, aerial combat fighters that play war games with each other for lack of serious enemies, or untested missile defense systems) and more on coastal, transport, and lift capacity to deploy huge quantities of armed personnel and equipment from one emergency in a corner of the world to another. Other nations will join in a secondary and support capacity, including the United Nations. The Americans will provide the muscle for heavy lifting; the others the softer power of skills and expert assistance.

War will be with us until the end of time, largely because it is an ultimate human game for which there are no real substitutes. But its shape has changed enormously. Classic “trinitarian” war[4] is dead; titanic world wars have passed; doomsday thermonuclear exchange is over. The wars that will remain are the following: occasional conventional wars in the rimland; potentially a regional nuclear exchange; here and there localized insurgencies in failed states; and last but not least terrorist attacks *urbi et orbi*, poising networks of organized states against networks of non-state subversives. The price to be paid for defense in these wars is ever more intrusive surveillance of civil societies with the ensuing paradox: the more “developed” the more subject to surveillance. In these new guises war will continue to stalk humanity, and peace will be, as always, its elusive antinomy.

Peace has no heroes. In extremis it produces martyrs. The original meaning of this term (Greek *μάρτυς*) placed it at the opposite pole of combat: not to bear arms, but to bear witness. A great many charismatic figures that have advocated peace met a violent end. It was perhaps the cruelty of their denouement that helped preserve their memory. The social movements that followed the nonviolent example of those charismatic types have interpreted the latter’s tragic demise as an act of sacrifice. But such sanctification by blood brings them back full circle to their archetypical nemesis: the warriors.

If the history of warfare teaches us anything, it is four things: (1) wars occur and recur, even though (2) the best war is the war not fought, (3) all engines of war turn into boomerangs, and (4) nothing lasting or worthwhile can be achieved on the road to Armageddon.

Notes

(1) Notably Martin Van Creveld, *The Changing Face of War. Lessons of Combat, from the Marne to Iraq*, New York: Presidio Press, 2006.

(2) Ulrich Beck, *Risk Society, Towards a New Modernity*. Trans. from the German by Mark Ritter, and with an Introduction by Scott Lash and Brian Wynne. London: Sage Publications, 1992 [originally publ. 1986].

(3) The strip of coastal land that it encircles Eurasia. Classic geo-strategists like Mackinder and Spykman debated its importance.

(4) This is war as defined by Carl von Clausewitz, *On War*, Princeton: Princeton University Press, 1976, and redefined by Martin Van Creveld, *The Transformation of War*, New York: The Free Press, 1991.

Chapter 6

Crisis and New Government in the United States: A Latin American View

Latin Americans have a rich experience in economic disaster. On a downhill slope they have long been first. This experience is worth using as a benchmark now that the entire world economy is slaloming into an abyss.

The US presidential campaign raises an important question for that country and for the world: before the multiple crises hovering over it, is American society willing to accept a cast generational change and a shift in course regarding state policies? The true election is between fear and hope. Seen from the Latin American experience, the other face of the crisis in the North is the opportunity it represents for a broad action that is less conditioned by the restraints of the recent past, on the part of a new government team.

Latin American Crises

The great changes in social, economic and political direction in Latin America in the last decades have been propelled less by a plan, a will agreed by consensus or a coherent ideology than by the harsh necessity and the strong and recurrent crises that have shaken the continent. Those crises, and their respective exits, have had opposite orientations. A sign of discontinuity thus characterizes recent Latin American history. Therefore, there has not been either sustained economic development or systematic social progress.

To simplify matters, I will say that the last decades' great Latin American crises have been two: the first one was the hyperinflationary crisis of the eighties, which marked the exhaustion of a substitutive industrial development style, mainly geared to domestic markets. To get out of that crisis, government elites were forced to change the course dramatically with respect to prior public policies and accepted new recipes for stabilization, privatization and opening-up to a new global world. That 180 degrees change is now labeled as "neo-liberal". The remedy, adopted with haste and administered in overdoses, worked for a while but had very harmful side effects: de-industrialization, unemployment, increase in poverty and inequality, among others. In some countries, the strategy led -in the long term- to an intolerable debt increase and to national bankruptcy.

After a decade of neo-liberal policies, a new crisis cropped up, this time around of a deflationary nature, that was experienced in some countries as the outbreak of a terminal disease, whose political outcome was the arrival at the top of disheveled states of new government casts that were ready to adopt urgent rescue measures and to try other exits. Default, devaluation, nationalizations, more state interference in the market, and attempts at income redistribution are some of these measures. Most of these new governments define themselves as "leftist", using quite an open and sometimes contradictory meaning of the venerable term, whose semantics has been reduced, in the last 25 years, to policies that tend to produce greater social equality and greater inclusion of marginalized groups, as well as more ideological independence from the traditional institutions of the North, but without offering an alternative plan to the standard practices in global markets.

For reasons that I find difficult to understand, in Latin America there is a manifest tendency to pack policies and assign them a systematic quality they really do not have. Thus, the measures adopted by many governments in the eighties and nineties are interpreted as a logical result of a conspiracy and disastrous plan, an entelechy called "neo-liberalism" which is given the title of "model". Likewise, but with an opposite sign, the measures taken by many current governments are interpreted as a part of a different "model", sometimes called "a developmental state", "the third way" or, more solemnly, "XXI Century socialism". Yet in one case or the other, a more calm analysis leads to a different conclusion: the so-called "models" are only emergency packages whose aim is to get out of a crisis. To say it in plain Spanish: the grab of someone who's getting drowned does not imply a swimming style. (1)

A Lesson Learnt

Yet it is not the purpose of this chapter to analyze Latin American governments' public policies in the last 20 or 30 years. My aim is to introduce a topic that I believe is an important lesson provided by Latin America's recent history: the role crises play in the adoption of strong and necessary measures –but very difficult to carry out in “normal times”- on the part of a government. In a very lucid text about the relationship existing between politics and reform in Latin America, Argentine sociologist Juan Carlos Torre indicates how a crisis that is collectively perceived opens undreamed of government opportunities for a new administration. His analysis, developed on the basis of the Latin American experience, can very well be applied to the new American administration that will take charge in January 2009, and especially to an Obama administration, that will inaugurate a new government style with scarce prior commitments, and that would imply a generational change in the politics of the North. It is worthwhile to quote Torre extensively:

“First of all, crises have the effect of discrediting the stances and ideas of the previous administration and this predisposes public opinion to grant those who access power a strong mandate to act on the emergency. Secondly, crises set up a sense of urgency that strengthens the belief that the lack of initiatives can only worsen matters; in these circumstances, scruples regarding which are the most appropriate procedures to take decisions give way to the acceptance of extraordinary decisions. Thirdly, crises not only intensify collective problems but also generate a widespread fear of an increase in social conflicts and of threats to the institutional order. All of this broadens the margins of action of government leaders and intimidates the opposition forces. When these various mechanisms that crises trigger combine, a government demand is generated that allows the presidency to make full use of the necessary institutional resources to concentrate its decision-making authority, adopt policies elaborated in the stealth by technocratic cabinets and impose an expeditious procedure for their enactment.”(2)

The United States: Politics in Times of Crisis

How can we apply these reflections to both the internal and to the geopolitical situation of the US in the twilight of Bush’s era? Firstly, we must determine whether there is in fact a crisis and, if so, if it is a partial, temporary or random phenomenon, or if it is instead a steady and deep trend that requires an extraordinary treatment. American opinion is divided with reference to this. Two of the three candidates to the presidency – the Republican John McCain and the Democrat Hillary Clinton-, although different, had a lot in common: they were both seasoned politicians who are skillful in the management of the government system as it is. In particular, they counted for their campaigns (and therefore, for their possible government action) on the support, and thus the conditioning, of powerful pressure groups, whose conflicting interests frequently lead to the usual compromise and to "more of the same", that is translated into quite weak policies, if not something worse, that is, a political stalemate and reciprocal veto. Any of the two, if chosen, would move away from some of the especially unsuccessful policies of the Bush administration (except for the war in Iraq, which McCain wanted to continue apparently *sine die*), as for example the abandonment on the part of the Bush administration of basic norms of democracy in favor of national security policies. They differed in terms of taxes, judicial philosophy and social philosophy at large. As to health insurance and social security, there are important differences that have more to do with degree than content. The ideological "tone" and tenor was the most important opposition between these two candidates. They replicated the traditional counterpoint that existed between the two major parties before the G.W. Bush presidency.

In the end, Americans were not kind to the Bush administration and the disastrous policies of Republican ideologues. They voted for change. The Obama administration will be very different both in form and content. This difference is the result of the generational change Obama represents. During the campaign within the Democratic Party to choose its candidate, Obama became the spokesman of the youth, an electorate sector that stood out for its absenteeism in all the presidential campaigns that followed the Vietnam War. Youth participation in this young candidate's campaign is astounding. (3) From a symbolic point of view, Obama represents a decisive change. From the color of his skin to his name he is a fundamentally different character: he does not represent racial division but its superseding in the crossbreeding of ethnic groups and cultures that characterizes the new American society. As he often says, he is a carrier of this synthesis in his very DNA. He is not a representative of the identity-based politics of the last 30 years but of a new mixed identity. He does not present himself as "bipartisan" (a common position among many politicians in the past) but as a “unitarian”. According to Obama’s declarations, that unity would be based on basic and necessary state policies for the whole country -beyond partisan differences. He does not describe himself as a conservative or “liberal” in the American sense but as a modernizing reformer. Hence the link there is between his image or style and the government task he intends to accomplish. The latter would be based on an update of the American economy and society in order to better adapt to a dynamic, bipolar and fractured world. His image –and the huge challenge it represents- is that of a new man for a new world.

The True Election

If this diagnosis is correct, a fundamental question must be raised: is American society willing to accept such a change of cast and course? In other words, and more in line with my previous reflections, is there a crisis situation that is collectively perceived, capable of generating a government demand that will be able to adopt new, creative policies that are at the same time rational, that were until now either unimaginable or shelved due to the great established interests? There are indications that the crisis is in fact perceived by many sectors of the population and that, among them, there is a demand for “something new”. Let us remember -to put it very simply- that in a democracy a simple majority, and sometimes only a plurality, is enough for a candidate, a program or a party to prevail. In American history there are precedents that favor this last hypothesis. I am referring to the great economic and social crisis of the thirties. In his book about Franklin Delano Roosevelt, historian J. M. Burns describes how at the beginning of the New Deal, when Congress had to tackle the bank emergency law, the following events happened: “Having been completed by the president and his advisors at two in the morning, the bill was still a draft. However, even during the scarce 45 minutes allotted to the debate in the premises voices claiming “we need to vote…” were heard. The Chamber quickly approved the project by a show of hands; the Senate proceeded likewise a few hours later; the president enacted it with his signature at nine in the morning.” (4) There are signs that we have entered a period of converging crises and emergency situations. I will list the most obvious:

-Financial crisis.

-Crisis regarding the standard of living and occupation.

-Safety crisis.

-Environmental crisis.

-Energy crisis.

-Educational crisis.

-Retirement crisis

-Health insurance crisis.

-Geopolitical positioning crisis.

As from the September 11th, 2001, attack, and several years later, with Hurricane Katrina, the American population has experienced great disruptions. Such incidents produce reactions of collective fear and a demand for safety and a “strong government”. But there are other crises, of a more structural than interim nature that should generate a demand for a “rational government”, that is, a willingness to support state policies in the fields of environment, energy, education, health and foreign relations that exceed the conventional frame. This concerns positive demands, not repressive reactions, and require a strong dose of hope more than fear.

Deep down, the great American election was one between fear and hope. Both feelings furnish a government with more freedom of action: one to punish and keep watch, the other to promote and dignify. From Latin America, used as we are to grant great freedom of action to the governments that must face our periodic and serious crises, we hope that the long American crisis that is moving forward produces a healthy political reaction, with the election of a new cast for different times. The cast will have greater freedom of action. It is the opportunity every crisis provides to the one who is in office in hard times.

Few among us are the Latin Americans who had the privilege of voting in those historic American presidential elections. The majority of course was not able to vote; yet they could and did express their opinion. The world looks again for new leadership from America.

Notes:

(1) Being saved or getting drowned will ultimately depend upon the strength and direction of the current. Strong or weak, favorable or unfavorable, currents are global. The success or failure of the policies depends, to a great extent, on the way they are adapted to these currents. I believe it appropriate to point out that, unlike other regions, the impact of the world on Latin America has always been greater than that of Latin America on the world -despite the continent's geographic and demographic volume. To emphasize the contrast, suffice it to remember Churchill's witty remark about the impact of the small Balkan states on international balance: "They produce more history than they are capable of consuming." By contrast, Latin America consumes more history than it is capable of producing. Hegel made the first reflection about Latin America in this sense. Kissinger made a similar remark later on: "It is a dagger aiming at Antarctica."

(2) Juan Carlos Torre. 1998. *El proceso politico de las reformas economicas en America Latina*. Buenos Aires-Barcelona-Mexico: Paidos, p.40.

(3) For those of you who take an interest in the impact of the new "generation You Tube" on American politics, I recommend a book by Morley Winograd and Michael D. Hais. *Millennial Makeover*. New Jersey: Rutgers University Press. J.M. Burns, 2008. *Roosevelt: The Lion and the Fox*. New York: Harcourt Brace, pp. 166-167, 1956, quoted by Torre.

Chapter 7

On the Brink of Great Change: The Crisis as Gateway to a New World

The big headlines from the first months of 2008 talked of the decline of the major stock markets, the global effects of the American mortgage crisis, and political humor on the U.S. presidential campaign, which is a kind of elite sport with a global audience. But this news and commentary obscured, or concealed, the fundamental changes on the horizon, whose first signs had only begun to appear.

The recession currently afflicting the U.S. economy – in large part triggered by the real estate crisis – should not surprise anyone: It is the manifestation of a forecasted correction. For some time, in the online magazine *Opinion Sur* I predicted this crisis, through analysis of the global circulation of money. I even came up with novel economic concepts, such as "fictitious capital," and have explained the problem in everyday language, without the use of specialized jargon.

The U.S. consumer has sustained Chinese over-production by spending beyond his and her means with money borrowed from his and her real estate piggy bank. Sooner or later, this growing mortgaged consumption reaches its limit. At this exact point, all the variables reverse and the economic cycle enters a downward phase. The U.S. government will respond to the debt by capitalizing on its until now dominant international status. Since the U.S. has indebted itself in its own currency, it will execute an elegant semi-default through devaluation. For his part, the indebted U.S. consumer will have to work out matters in whatever way he and she can.

Every crisis of this kind, every economic cycle, is – nearly by definition – fleeting. Behind the anxiety that these crises generate, there is the suggestion and the desire for something new. In the U.S., this desire was already evident in the presidential campaign and all of its symbolism. In the rest of the world the U.S. crisis will have dire effects, but although everybody is on the same boat today, as we pull out of the crisis, we will notice that the train of humanity finds other engines. From the geopolitical point of view, the outlook shapes up as follows, with some novel elements worth looking into.

The assets of globalization

The first point to emphasize is the defining characteristic of the recent globalization: the transfer of industrial production (and of some post-industrial production too) to the Asian countries – in particular, China – with all the benefits and problems that go along with swift industrialization. The great and ancient Asian societies, which Napoleon Bonaparte long ago classified as “a sleeping giant,” have awakened. They have mobilized their population to produce cheap goods and services for the global market. They have moved swiftly through stages known well in Western societies: primitive accumulation, rapid urban congestion, the search for foreign markets, the subsequent increase in the organic composition of capital and of technological productivity, the replacement of perpetual poverty with a distinct model of social inequality with less penury, the stabilization of demographic explosions to more sustainable levels, the increase in domestic consumption and the emergence of a lifestyle that will sooner or later create social pressure for more democratic participation. Economic development, even in a global world, happens within national societies, where the state continues to play an important role. This means, in short, more military power and greater diplomatic influence from the so –called “emerging markets”, which are also emerging powers. In sum: a fundamental geopolitical re-equilibration.

Global debits

All of the above can be put in the assets column in the provisional accounting statement for this great global transformation. In the debit column, we should note the following burdens placed on humanity. The rapid transfer of work from rich countries to countries with cheap labor increases structural unemployment in rich countries and creates, above all, a feeling of insecurity on the labor front. The explanation is simple:

Jobs leave faster than displaced labor can be retrained. This gap causes uneasiness, which translates into political posturing, namely: protectionism, nativism, and reactionary populism. These political symptoms are in turn exacerbated by another element of the current globalization. Extreme poverty and growing pains in non-Asiatic countries produce a migratory current into wealthy countries, where immigrants fill vacancies in the lowest ranks of the social stratification. In short: In rich countries, the social descent of certain working and middle class sectors runs up against the ascent of the recently arrived, for whom the same process of globalization is a source of hope and social mobility. This will be one of the primary sources of social conflict in years to come.

Temporary benefits

Second, the productive mobilization of the Asian giants has produced a seemingly insatiable appetite for supplies, in particularly the following three: energy supplies, food, and mineral raw materials. Increases in the price of oil, gas, and commodities – including everything from soybeans to copper – have been spectacular and show no signs of slowing down. This means that countries that produce energy and raw materials can look forward to the prospect of sustained growth based on exports. Many consider this promising prospect a "long tailwind." The collapse of 2008-9 belies such expectations. Some even maintained that the traditional terms of exchange between primary and manufactured products (which until recently favored manufactured products) had been reversed. The subject was fascinating and, in general, a source of optimism, dashed in the crash that followed. Above all, these conditions enabled many countries to escape stagnation and under-development, and hundreds of millions to escape poverty. Since demand for their products came not only from rich, industrialized countries but also from the emerging countries, producers of commodities suffered less dependency and enjoyed greater freedom of action. But, in an interdependent crisis, could those trends be reversed just when expectations had risen?

It is therefore important to consider the flipside of that initially auspicious situation. One must always distinguish between growth and development. If growth contributes to productive diversification in these societies, if the wealth generated translates – if only in part – into better institutions, more equality, and better human and cultural capital, it will have positive effects in the long term, beyond export booms. This is development. If, on the other hand, the bonanza is squandered on parasitic subsidies, on sustaining archaic regimes, on the distribution of benefits without cultural or productive qualifications, on the personalistic or prebendary concentration of power without transparency, and on baseless – even conflictive – geopolitical ventures, then growth is merely another episode in the boom/bust cycle that has characterized Latin American history – a history well narrated in our novels from 30 years ago. The great theme in Latin America, and by extension many countries in the global south, is how to achieve sustainable development rather than rock and roll in boom-bust cycles.

The great opportunity

Third, the exit of billions of people from poverty and subsistence living, and their swift incorporation into consumer society created problems with overcrowding and pollution that threaten the physical wellbeing of the whole of humanity. Whether or not such improvement in the standard of living will remain or suffer a great setback in the current crisis, by sheer dint of population growth we are at an impasse. Global social justice (which is just the same as historical justice), if framed in terms of the traditional and understood forms of social and economic development, comes into sharp conflict with environmental sustainability. The dysfunctions of global progress are multiplying right before our eyes: global warming, climate change, water scarcity, the disappearance of animal and vegetable species, the accumulation of toxic wastes, urban congestion, the increase in stress-linked illnesses, not to mention the murkier terrain of psycho-social ills.

At the same time, and fortuitously, if we look at each of these symptoms as a challenge to human creativity, an enormous range of opportunities and initiatives emerges: new areas for scientific research, novel business opportunities, new markets for alternative products, new social experiments in less wasteful and more harmonious coexistence.

The main obstacle to a sustainable and equitable future is neither technological, economic, nor environmental: It is cultural, at once psychological and spiritual. This obstacle is the tendency to repeat what is known, evident in such seemingly innocent and "common sense" phrases as "to grow is to produce more of the same," "justice is asking for our turn to do what those before us did and we couldn't," "progress is thinking that, without a lot of worrying, things will take care of themselves." Faced with the need for a change of civilization, our main obstacle is simple our so-called common sense. It is no longer of any use to us. Let's leave it behind, with responsibility, faith, and even a measure of enthusiasm.

Chapter 8

A Steep Downhill

We have effectively entered the second Great Depression of the capitalist world. This chapter attempts to offer an idea of the extent and the velocity of the decline in economic activity and, above all, of the destruction of wealth around the world. It remains to be seen whether concerted action by our governments can brake the fall. Likewise, the geopolitical consequences of this extraordinary collapse have yet to be fully experienced or analyzed.

I live 10 blocks from Wall Street. This has allowed me to bear witness to an economic collapse that has no precedents, though lessons can be gleaned from the 1907 U.S. banking crisis, the great financial/economic crisis of 1929-1932 and, more recently, the collapse of the world's second economy – Japan – in the 1990s. (1)

But this crisis is worse than all of those. In contrast to the Japanese crisis, this is a synchronized, global crisis. And the magnitude of the present crisis is much greater than that of the Great Depression of 1929-1932. We are dealing with the collapse of the most recent phase of globalization, and this reminds us that the globalized economy is effectively centered not merely in the United States, but to be more precise, on Wall Street. And this financial center turns out to be just like the center of a doughnut or, in New York, the center of a bagel – in other words, a hole.

It is a crisis that, by virtue of its size and the specific dynamic of the capitalist system, has swept across the world like a supernatural catastrophe, beyond any human control. In the face of this phenomenon, the planet's governments are preparing for battle with all the fiscal and monetary tools at their disposition. But if this is a battle, it is not a fair fight but a pitched conflict: something out of science fiction, like the book War of the Worlds (H.G. Wells, 1898) or the subsequent radio broadcast (Orson Wells, 1939). On one side stands the sharpest economic contraction since 1980, the strongest deflationary wave since the Great Depression, the worst real estate collapse in history and the highest tally of bankruptcies on economic record. To confront these monsters, our leaders stand ready with the boldest combination of money issuance, government rescue packages and stimulus plans ever tried.

The majority of politicians and economists are hoping that this defensive strategy succeeds in slowing and disarming the ghouls threatening us. They are hoping that our governments and their leaders rescue nearly all of the great institutions now floundering; that they print money indiscriminately in order to finance the many poor decisions made by big banks, insurance companies and large manufacturers; that they rebound from the current financial and credit paralysis without stopping to consider its causes; that they maintain a high level of public debt (both foreign and domestic) for an indeterminate time; and that they counter deflation with inflation.

In the heat of the moment, however, they have not stopped to consider that, once unleashed, inflation is very difficult to slow; that it may very well destroy the value of a currency; and that, in the long run, inflation can condemn capitalism to a miserable fate.

Others – whose ranks are thinnest but who are among the most orthodox of thinkers – believe that this strategy (which was initiated in the final days of the Bush administration and will be continued with greater fervor by the new Obama administration) is optimistic in the short- and mid-range, but fatal in the long run. In other words, the success of this strategy, if it does succeed, will be short-lived. They believe that, in spite of all their weapons, the intervening forces will fail to achieve their proposed objectives, namely:

- They will not succeed in reversing the long overdue liquidation of bad debts;
- They will not succeed in slowing the necessary decline in the cost and quality of life;
- They will not succeed in creating an inflationary exit strategy and lowering the value of the dollar;
- They will not succeed in delaying the days of hard work and sacrifice;
- They will not succeed in protecting inefficiency and discouraging innovation; and
- They will not succeed in institutionalizing mediocrity in the name of security.

The lower house of the American Congress has just approved a more than $800 billion stimulus package. Meanwhile, the Treasury Department has already acknowledged the failure of its previous effort, the $700 billion TARP program, which was intended to inject money into the economy through the beleaguered financial sector. In the first skirmishes of this great battle, the great enemy –Deflation-- has neutralized the best intervention plans.

Deflation is not merely a decline in prices, though right now this decline is plain to see. Almost all of the businesses I pass by have slashed their prices and fees from 30 to 70 percent. Deflation, however, is something more than this: it represents an extreme case of wealth destruction. Of course, the further we explore the subject, the more doubts arise, such as those noted by our co-editor, an astute economist. Is the "artificially" generated product of reckless indebtedness rightfully called wealth? Many people, perhaps, would answer yes, since more bricks or other intangibles were generated. But accountants, who tend to be more conservative in their assessments, would likely answer no, since the liabilities that have sustained this wild generation of assets exceed the assets themselves and, from the accounting perspective, net worth is negative. Could it be that wealth is simply a measure of assets, with the nature and size of liabilities wholly irrelevant (a formulation that lurks behind many of today's sectoral "bubbles")? Or, on the other hand, is wealth better conceived of as a measure of net worth?

Whatever the case may be, what is certain is that right now wealth is being destroyed at an accelerating pace and we are all feeling the impact in our daily lives. Compared to this destructive rhythm, governmental measures – for all their haste – are painfully slow. The most daring rescue packages are far smaller than the wealth being "burned" on a daily basis. And, more worrying still, our leaders have been unable to ensure that these funds reach those who truly need them.

First, the wealth already destroyed is several times larger than the most generous of the rescue packages. Each quarter, the U.S. Federal Reserve publishes a detailed account of national wealth divided into five categories: real estate, corporate equities, mutual fund shares, pension and insurance reserves and assets of non-profit non-governmental organizations, including universities, churches and foundations. The latest results, based on the Federal Reserve's Flow of Funds report, are as follows:

Chart 1

Massive wealth destruction in the U.S.
2007-2008.

Source: Federal Reserve, Flow of Funds (in billions of dollars)

Quarter	07 -- 1	07 -- 2	07 -- 3	07 -- 4	08 -- 1	08 -- 2	08 -- 3
By sector:							
1 Real Estate	-53	-190	-496	-708	-662	-217	-647
2 Corporate Equities	530	633	78	-377	-911	-247	-922
3 Mutual Fund Shares	84	202	96	145	-297	-24	-523
4 Pension Reserves	83	438	83	-265	-832	-132	-653
5 Non-profit Institutes	127	101	48	0	-32	-10	-128
Totals	782	1,184	-190	-1,495	-2,734	-630	-2,872

Total losses = $7,921 Billion

This chart clearly shows how, in the first quarter of 2007, homes began to lose value in the real estate sector. This marked the beginning of the so-called sub prime mortgage crisis, with losses totaling $53 billion. In the second quarter, the losses ballooned to $190 billion. They increased in the third quarter ($496 billion) and rose again in the final quarter to $708 billion. It was in this quarter that wealth destruction spread to other sectors: stock market values, life insurance, pension funds. By the close of 2007, losses already totaled $1.5 trillion dollars (a trillion is a million millions, or 10 to the power of 12). This trend accelerated in 2008. Families have lost about $3 trillion in real estate value in the first quarter and continued to lose in the second quarter, in spite of an economic stimulus package. In the third quarter, losses rose again to $3 trillion. By the end of the year, losses added up to nearly $8 trillion! This sum is eight times greater than the stimulus package proposed by Obama and 11 times greater than the Treasury's first rescue package (Secretary Paulsen's TARP program). Over the last several months, the government has lavished new and sizeable sums on guarantee programs in order to prevent large institutions from going bankrupt. But money guaranteed is not the same as money spent. While I sit writing these words, there is great concern over how to avoid the failure of no less important an institution than Citibank. I believe there is no solution other than the outright nationalization of Citibank, and perhaps of other giants of private banking who have bitten off more than they can chew.

In the second place, liquidation of private debt – the strongest of all deflationary forces – has already begun. For several decades, the U.S. economy has borne mounting debt, and now the levels are no longer sustainable: mountains of loans, promissory notes, bonds, mortgages, credit cards and bank paper accumulated year after year. But everything changed in the third quarter of 2007. It started with the liquidation of short-term debt in the inter-bank markets and in the corporate short-term debt market (commercial paper). Later, the liquidation extended to the mortgage sector and to bonds. In the third quarter of 2008, mass liquidation was already well underway. Charts 2 and 3 help give an idea of the process:

Chart 2

Collapse of mortgage debt in the U.S.
Source: Federal Reserve, Flow of Funds, Table F4, Credit Market Borrowing.

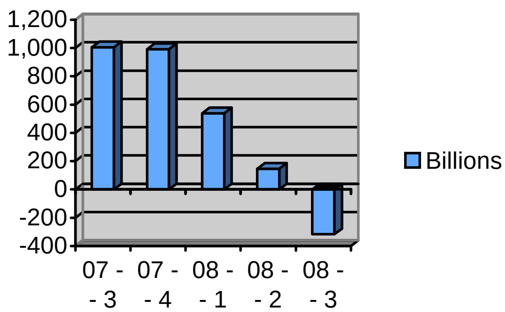
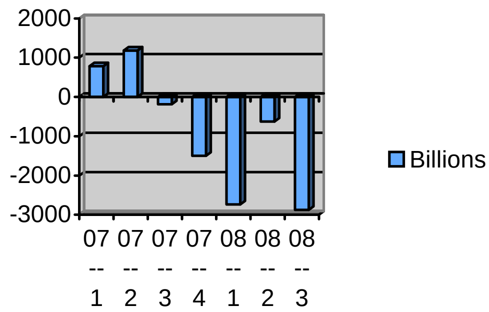


Chart 3
Acceleration of wealth destruction in the U.S. 2007-2008.
Losses in billions of dollars.



This all adds up to something much more serious than the strangulation of credit, which represents a decline in the creation of new debt. We are dealing with the destruction of unpaid debts, which are then written off as losses. The process is plain to see in U.S. towns and cities: housing prices have fallen; there has been mass mortgage foreclosure; and creditor banks, forced to move their numbers from assets to liabilities, are now themselves facing the prospect of bankruptcy. It is a classic, nearly textbook, cycle of deflation and debt collapse – strikingly similar to what happened between 1929 and 1932, though many would rather not admit it.

As if this were not enough, prices have begun to fall. In recent months, the prices of commodities have declined just as they did during the Great Depression. The price of oil has fallen 73%, copper 66%, nickel 73%, platinum 66% and wheat 64%, to give just a few examples.

The Producer Price Index, which is more reliable and sensitive than the Consumer Price Index, is dropping at a rate of 2% per month. Naturally, all of this is reflected in the Dow Jones Industrial Average, which has suffered the worst fall in its 75-year history.

Finally, up until this point, government-spending programs have been inadequate. As the cowboys like to say, you can lead a horse to water, but you can't make it drink. The massive sums of money lent to the banks have not left their vaults. Whom are the banks going to lend to? Meanwhile, manufacturers have announced massive layoffs and shelved plans for new investment and construction. They simply have too much idle capacity. It is fitting to remember what Marx said: The roots of capitalist crises lie not in too few goods but too many. There are too many unsold houses, too much clothing waiting to be bought, too many unused offices and too many empty shopping malls.

It is likely that the new Obama administration will initiate a series of massive public works projects, similar to Franklin Roosevelt's WPA in 1933. But this is easier said than done. The risk is that, executed too hastily, this effort will merely multiply useless programs. But, without quick action, the economy will simply continue its precipitous decline. This is the dilemma that Obama has inherited. A historical warning: In the '90s, Japan executed a stimulus package consisting of an outlay of 10.7 trillion yen in August 1992, 13.2 trillion yen in April 1993, 6.2 trillion yen in September 1993, 15.3 trillion yen in February 1994, 14.2 trillion yen in September 1995, 16.7 trillion yen in April 1998, 23.9 trillion yen in November 1998 and 18 trillion yen in November 1999. The total: 118.2 trillion yen, equivalent to $1.3 trillion in today's dollars (adjusted for inflation and GDP relative to the U.S. economy). All this amounted to nothing: Japan lost a decade mired in mediocre or no growth and falling stock prices. Did Roosevelt's stimulus and public works package fare any better in the 1930s? Studies on the subject – among them one by Mr. Bernanke, chairman of the U.S. Federal Reserve – are far from conclusive. And the debate continues over why, with all of Roosevelt's stimulus packages, it was not until 1943 – in the middle of the Second World War – that the U.S. economy finally recovered.

Will we have better luck, or will we have to endure ten years of social and economic recomposition? This is the big question that looms over the young presidency of the serious and respectful Mr. Obama. What a present Bush has left his successor!

Notes

(1) I do not cite Argentina because it has long been a puzzling exception to development patterns

Chapter 9

Possible Ways Out

What is to be done? is the biggest question of all, and the answers are likely to be quite different to the ones envisaged by the most famous poser of the question in 1917. Radical reforms are coming, and they will make the world a truly interesting place –if we rise to the occasion.

A great crisis is also a great opportunity to institute reforms that ground an economy on a more sustainable basis. It is precisely this that is at stake right now in the United States, after a truly historic presidential election. The global capitalist system, with its base in the United States, has not been vanquished, though it is indeed in danger. Nonetheless, it is a system that boasts sizeable reserves, enormous advantages and a historical capacity to bet big. The time for new and radical state policies is upon us. Will the new government be up to the task?

"You will see things, friend Sancho, that will make stones speak." Don Quixote was right. As I note elsewhere in this book, the twenty-first century's global capitalist crisis has given rise to a kind of rescue socialism, backed by the loftiest members of the global elite. And, to be honest, something very serious must be happening when orthodox economists start talking like Hegelian philosophers. (1) Indeed, the president of the World Bank, the very technical and sensible Mr. Robert B. Zoelick, argues in an article published in The Washington Post that a world in crisis offers, in turn, a chance for greatness. (2) Thesis: a capitalism dominated by the financial sector, without limits or restraints; Antithesis: a catastrophic crisis; Synthesis: a new, happy world, reorganized by strong and rational leaders and built around a healthier economy. It makes sense to take a closer look at this dialectic, which shows some optimism in place of the usual pessimism. In the end, Hegel himself said that the most sublime concepts are fruits of existence and that the essence of existence is overcoming pain.

The first proof is easy. As increasing numbers of industries go bankrupt, that is, as the financial-real estate crisis impacts the "real economy," the tendency is – given the general impotence of banks and multinational organizations – to regulate markets, nationalize businesses and move closer toward protectionism, i.e. some form of economic nationalism. While these trends may manifest themselves differently in diverse countries and regions, the conclusion is clear: the neo-liberal model is, beyond a shadow of a doubt, history. It has been replaced – silently, without preaching or ideological proclamations – by a pragmatic model, in essence "Chinese" (in the sense of Deng Xiao Ping), that nationalizes and regulates but falls short of constructing a planned economy. Just as the neo-liberal model generated a real revolution in the planetary division of labor – but a revolution built on a weak and speculative foundation – so the new model will create a new order and a new equilibrium, built on a more sustainable foundation, which will make possible a new era of accumulation.

The second proof is more difficult; because it runs counter to common sense or, better put, counter to today's hysteria. There are those who claim that the crisis marks the end of American hegemony and that U.S.-style capitalism will now be obliged to share power and profits with emerging and resurgent world powers: the BRICs, Europe, Russia and perhaps other countries with natural and energy resources. This claim is not completely erroneous. Comparative social indicators show the U.S. at a disadvantage relative to other countries and even to its own past prosperity in terms of health, education, social protection, transport, environmental stewardship and infrastructure. This is the consequence of a quarter-century of neglecting its own social and human capital while shifting the bulk of industrial production to other continents and compensating for this with deficit spending and speculation. This was the great illusion of "easy money:" economic growth sustained through massive consumption on credit, "guaranteed" by a false valorization of properties. The current crisis is nothing more that the dramatic and painful correction of the excesses of that phase of accumulation. But the crisis need not represent a terminal condition, provided that conditions for a strategic exit are fulfilled. I will now take a look at these conditions.

Contrary to the titles screaming from the shelves of commercial bookstores, this crisis cannot be compared to the fall of the old Roman Empire. "Roman" collapses occur when a system expands too much and wanders dangerously far from its base. It is then attacked from the periphery and retreats, until finally the "barbarians" (those from the outside) seize the center and destroy it. In other words, it is an exogenous and centripetal process. The current global crisis, on the other hand, is endogenous and centrifugal: It began in the center of the system, contaminated the immediate surroundings and produced the most harmful effects on the periphery. This insight helps to make sense of the fact that, in the middle of the American collapse, governments and investors around the world are lining up to buy dollars rather than turning to other currencies. In this so-called "fall" of the American empire, the "barbarians" are not besieging the Capitol but seeking refuge there. What is this magic power of the dollar? Why, instead of repelling, does the dollar attract so many foreigners, above all the governments of those countries supposedly standing in line to replace the United States as the dominant power?

Ever since the famous decoupling of the dollar from the gold standard, effected by President Nixon in 1971, the world has lived with a flexible, or floating, dollar. In that time, the United States has become the financial center of the world. After the decoupling, the Federal Reserve, the U.S. central bank, proceeded to issue the national currency, without any backing in precious metals, as an international currency. Since then, the Federal Reserve has regulated international interest rates and issued Treasury bonds that function as the true backing for the global dollar. This has enabled the United States to amass a foreign debt in its very own currency – a privilege that no other country has secured and one that is almost inconceivable. Today nearly all American liabilities for goods and services are owed in dollars. This kind of system is fail-proof: It represents the only truly "bullet-proof" system in the world.

This system creates a tremendous asymmetry between the external exposure of the United States and of other countries. (3) As Latin Americans who have suffered repeated foreign debt crises know all too well, financial obligations must be paid in the currencies of others. For the U.S., however, debts are paid by printing green bills. It is the only case of a country capable of determining the interest rate on its own foreign debt. To reprise my earlier argument, this system in question is circular, centrifugal and nearly unbeatable. Even the world's biggest creditor, the People's Republic of China – which boasts international reserves of more than 2 trillion dollars – has to play by this system's rules. I will only be convinced of the end of American hegemony when this circular, dollar-based system is replaced by other reference currencies. And this seems unlikely. (4)

Now it should be clearer why the dollar system is centrifugal: It distributes the crisis from the inside to the outside, from the center to the periphery and, at the same time, prevents the unexpected breakage of the bonds of globalization. It is a system in which the creditor is at the mercy of the debtor. This enables the system, currently in crisis mode, to rebalance itself without loss of hegemony, provided that there is strategic management from the centers of power.

Continuing with the example of China as creditor tied to the prow of the American debtor, this rebalancing act will be achieved through the accelerated development of the creditor's domestic market, with greater domestic consumption and a progressive lessening of the need to invest reserves in the American debt. For the United States, this same process may afford the time needed to make significant investments – many of them "socialized" – in new, cutting edge technology – with an emphasis on "green" machinery – and in the modernization of infrastructure and human capital.

Over the medium range (i.e. investments that see returns after 15 or 20 years) this strategy will drive a new cycle of growth, which will be less speculative and based more on technical and scientific content than on financial content. In other words, this growth will owe less to a "gambling economy" and more to a "real economy." Provided there is effective management of public policy and a good sense of strategy, this new model of accumulation should arrive just in time to address, intelligently and productively (rather than merely defensively), the environmental challenges that loom over a planet that in a few decades time will be home to more than 9 billion people.

Let's be frank: The current global crises originated within the hegemonic power. They are crises of exuberance and not of anemia. In crises like these, the system "suspends" its own rules and ideology while it readjusts, ideally to reemerge as the engine that drives the growth of other countries engaged in the global economy. Any assessment of the leadership of a world power must take into account more than good times of growth and expansion. It must also consider the intensity of its "pain," as Hegel would say, and, ultimately, the speed of its recovery.

In this respect, the presidential election in the U.S. is the first test of the country's capacity for recovery through means that are heterodox and novel, i.e. that are experimental. New and radical measures are precisely those that no one wants to take during "normal times." In "normal times," major political players and interest groups have the power to veto audacious policies and even those state policies that do not bear fruit within the short election cycle. But during “times of great crisis” the game changes. The main political actors grow paralyzed and the big interest groups find themselves in need of help. These times amount to a true “state of exception” and endow the ruling power a freedom of action inconceivable otherwise. For example, consider that, during the great depression of the 1930s, president Roosevelt enacted the era’s most daring (i.e. “socialist”) policies during the span of only 100 days.

The time has come for a significant change in America’s ruling team, which is, of course, the world’s ruling team. Though it began in the financial sector, the crisis is already generating a global deflationary tendency, i.e. a true depression. The coming changes will be painful. The new ruling team must adopt mid-range and long-term state policies, the only kind of policies suitable for cultivating sustained global leadership over the course of the next century. The new president must rise above the two traditional parties and launch, with the backing of a good team, his own 100-day program. President-elect Barak Obama, in my opinion is up to the challenge. The other party, and its candidates, only offers the platitudes of tired men now condemned to regroup while in opposition.

Notes:

(1) See Joseph Stiglitz, “How to Get Out of the Financial Crisis,” *Time*, October 17, 2008.

(2) Robert B. Zoelick, “A World in Crisis Means a Chance for Greatness,” *The Washington Post*, October 26, 2008.

(3) See F. Serrano, “A economia Americana, o padrão ‘dólar-flexivel’ e a expansão mundial nos anos 2000,” in J.L. Fiori, F. Serrano e C. Medeiros, *O Mito do Colapso Americano,* Rio de Janeiro: Editora Record, 2008.