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A 'crisis', but of what?[2]

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Abstract

The current economic crisis has generated a discussion about its fundemental causes. Five major explanations for the crisis have been put forth by different stakeholders and critics. We analyze each of the five explanations and critically reflect, from a Marxist perspective, upon the vested power interests and political consequences in promoting this or that explanation.

Key words: economic crisis, globalisation, capitalism

Introduction

This conference is called 'Beyond globalisation'. Even though no question mark was added to it, I assume it was nonetheless intended. If we ask 'Beyond globalisation?', then our attention is focussed on two issues of considerable contemporary significance. First, is 2009 the beginning of a period of major change to the global political economy? The word 'beyond' invites us to reflect on this question. Second, if the immediate past is indeed being eclipsed, then is that period best described as an era of 'globalisation'?

These will be my questions. And I want to address them by focussing on the theme of 'crisis'. I do this for a couple of reasons, one of which is fairly obvious. As we all know, by spring 2008 metaphors like 'financial firestorm', 'credit tsunami' and 'economic meltdown' became commonplace in media, political and business circles. The defaults on sub-prime mortgages in US in summer 2007 had sent the financial house of cards tumbling within a few short months. After Lehman Brothers collapsed exactly a year ago, comparisons were being made to the Wall Street Crash and the subsequent Great Depression of the 1930s. These comparisons have proven to be inaccurate, for the time being. Even so, a synchronised global recession of geographically varied seriousness has now set-in, with unemployment at almost 10% in what remains the world's largest economy, the United States. Meanwhile, countries not directly responsible for the financial crisis – such as the Czech Republic – have been forced to suffer the consequences of weakening demand for export goods and a scarcity of investment capital. In short, the after-effects of the financial crisis have spread far beyond Wall Street and the Square Mile.

The word 'crisis', of course, means 'a turning point', a 'moment of decision' and 'an unstable or critical time' – at least according to my *Oxford English Dictionary*. And this is the second reason why I focus on the theme of crisis this morning. Many agree that the 20 months subsequent to August 2007 were a period of 'crisis' – but a crisis of *what*, exactly? Financial (de)regulation, casino banking, neoliberalism …?

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Commentators have fallen over themselves to answer this cardinal question, to suggest immediate solutions and to prescribe longer-term remedies. What I’d like to do this morning is quickly survey the principal crisis narratives that have appeared in everything from the mass media to academic publications over the last two years. I’ll be focussing on the English language discussions, as they’ve occurred in daily newspapers, television news reports, think tank publications, books by financial professionals and other arenas. I range so widely because the 2007-09 ‘crisis’ was a very *public* one: few people were unaware of it, at least in Europe, and its fall-out implicates all of us as tax-payers, employees and citizens. The era of ‘globalisation’ has produced its first global crisis and its first global recession. As I’ll suggest below, depending on which set of knowledge producers and consumers we look at, rather *different* explanations of the recent ‘crisis’ and how to address its fall-out are to be found. Yet most, as we’ll see, make little or no mention of ‘globalisation’ as a salient analytical category, and rightly so.

Interpretation 1: corrupt and greedy bankers are to blame

The speed with spring 2007 defaults on ‘sub-prime’ American mortgages triggered a late year global ‘credit crunch’ left the heads of financiers, regulators and politicians spinning. For the average citizen it was even more bewildering, or simply bemusing. Talk of leveraged borrowing, derivatives and securitised loans made little sense to the person on the street – such as the thousands of Northern Rock account holders who, in September 2007, queued to remove their savings from what they thought was a dependable high street lender. But by the new year, those with little appetite for the intricacies of high finance were thrown a gift: something recognisable to blame. Jerome Kerviel, a junior futures trader with Société Générale, was arrested in January 2008 for unauthorised dealing leading to losses of 4.9 billion Euro. But his malfeasance was as nothing compared with that of the new poster-boy for financial corruption. Bernard Madoff, a highly respected Wall Street investor, was sentenced to 150 years in prison for operating the largest Ponzi scheme in world history. His prosecutors claimed losses of $65 billion on behalf of their now mostly bankrupt clients. Madoff is to the noughties what Nick Leeson was to the nineties.

Unsurprisingly, the tabloid press and the other vox pop parts of the news media had a field-day with these cases. They served a pedagogic purpose that bookended 2008, after frenetic months when political economic leaders and the media had found it easier to describe unfolding events than explain them. Kerviel and Madoff’s corruption usefully personalised the causes of a crisis that most people simply did not understand. Little matter that both men’s actions were largely irrelevant to the liquidity drought that had pitched the world’s ‘real economy’ into recession by early 2009. But the search for villains did not begin-and-end with a few ‘rogue traders’. Even the most demagogic elements of the news media could not pretend that this was the nub of the problem. Instead, the spotlight was shone on a broader set of actors and a rather different cause: namely, high financiers in general (‘fat cats’) and their collective greed in particular.

This story-line became a common-place of the low- and middle-brow news media throughout 2008 and 2009. For instance, Britain’s most popular tabloid, *TheSun*, repeatedly invoked the image of City bankers as pigs gorging themselves in troughs of money. The attribution of collective blame typically focussed on two things. First, it was suggested that pretty much the entire financial class was guilty of reckless self-aggrandizement. In Britain, the way Northern Rock’s former chief executive Adam Applegarth was pilloried in the gutter press from late 2007 was emblematic of this. Once it became clear – by early 2008 – that virtually every high street and investment bank had engaged in high-risk lending practices, blaming individuals like Applegarth became rather pointless (even as it satisfied public bloodlust). The collective guilt thesis was dramatised in February 2008, when the leaders of

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HBOS and Royal Bank of Scotland were cross-examined by the Treasury Select Committee of the House of Commons. The four chief bankers under the spotlight all issued a public apology for the harm their lack of proper oversight had caused. This was, evidently, a problem caused not by a few reckless financiers but by almost all of those found in banking's upper echelons.

If such apologies served to locate blame at the level of chief executives and their boards, the notion that greed was a key driver was seemingly evidenced time and again through 2008 and the early part of 2009. This brings us to the second focus of the selfish bankers storyline: the huge severance packages given to the senior financiers who had led their companies – and the wider world economy – over the cliff. The sense of public outrage about this was intensified by the extraordinary fiscal and monetary measures that public authorities worldwide put in place to rescue the financial system: this meant, in effect, that tax-payers were richly rewarding already uber-wealthy executives for their catastrophic failures. In Britain, former RBS chief Fred Goodwin became a cause celebre, with his Edinburgh home requiring a police guard once details of his exorbitant pension payment were reported in the media. In the US, the newly installed President sensed the public mood when in spring 2009 he strongly criticised those running insurer AIG for awarding lavish employee bonuses – this when the firm still required federal government funds to survive.

For all its popular appeal, it is not difficult to point out the analytical deficiencies of the 'corrupt and greedy bankers' narrative. While high finance's 'masters of the universe' must certainly take responsibility for their reckless actions, to abstract them as a group from the wider political economy serves to obscure a number of important factors. 'Greed' is not much of an explanatory category either, implying as it does some transhistorical human impulse that threatens to manifest itself in the absence of proper checks. Even so, the idea that individual corruption and collective greed together explain the recent economic crisis is undeniably powerful. Its relative simplicity makes it easy for mass audiences to understand; its focus on individuals and their wider clique taps-in to a venerable public need to identify villains; and, at the end of the day, the idea is easy for those promoting it to evidence. On top of this, it has widespread political appeal: it resonates with conservatives, liberals and social democrats alike. In Britain, for instance, New Labour has had cause to use it on occasion (no doubt to deflect attention from its own role in deregulating City finance from 1997 onwards), while the Conservatives have found it very helpful in attempts to win over potential voters in the run-up to a general election. Outside the political mainstream, Interpretation 1 can also prove strategically useful to radicals on both the Left and the Right. In normative terms, it licenses punitive action against bankers (of the sort meted out to Madoff) who must be 'reigned in' and 'held to account'. That regulators and legislators have thus far done little to punish financial high-flyers only serves to further dismay large sections of the general public. At the time of writing (September 2009), critics are pressing the Obama and Brown administrations to put Wall Street and City fat cats on a stringent diet overseen by more rigorous regulators.

Interpretation 2: 'light touch' regulation is to blame

Soon after the 'credit crunch' set-in, many in the worlds of business, politics, academia and the serious news media began to talk about financial 'regulation' – the *lack* of it, to be precise – as the principal problem. Such talk sounds dry and overly technical to the average person. But it is meat-and-drink to that significant minority of people who play very close attention to how business practice is governed by public authorities. These people include economics correspondents who ply their trade outside the populist sections of the media; business professionals in the financial sector and beyond; elected and appointed public servants tasked with the job of oversight; and social scientists based in think tanks,

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foundations, economics departments and business schools. If publications like *The Economist*, the *Financial Times* and *Business Week* are anything to go by, 'regulatory failure' has become a favoured explanation among large sections of the world's political economic elite and the business commentariat. In simple terms, the argument is that too much commercial freedom was afforded to financiers large, medium and small. Former House speaker Newt Gingrich phrased it thus: the current crisis, he opined, "is a government problem, not a market problem" (Freeland 2009, 22).

This interpretation has considerable empirical warrant. The so-called 'high risk, high reward' approach to finance was indulged by regulators and law makers worldwide for over 20 years. Indeed, it was in one sense *created* by them – Clinton's repeal of the Depression-era Glass-Steagall Act in 1999 being a signal example. In the US and Britain, where global banking assumes huge national importance, the good times yielded colossal tax returns for central government, thousands of largely well-paid financial services jobs, and an associated 'wealth effect' as Wall Street and City employees spent their considerable earnings. But the price of success was a misplaced belief that the interests of finance capital were coincident with the public interest. Regulatory under-sight became normalised. Examples abound and have been easy for proponents of the 'under-regulation' interpretation to cite. For instance, in recent years law makers and regulators in the Anglo-American world have: removed the firewall separating high street and investment banks; allowed excessive leverage, with some banks having debt-to-equity ratios as high as 30:1; permitted the proliferation of complex financial instruments such as collateralised debt obligations and credit default swaps; sanctioned a reward structure in which finance professionals are richly rewarded for making continuous, short-term gain for their investors and shareholders; allowed 'too large to fail' banks to form through mergers and acquisitions; raised no objections to institutions that seek returns on very high risk investments; not objected to hand-in-glove relationships between credit ratings agencies, companies insuring against non-performing investments and the international banks; and sanctioned the emergence of a so-called 'shadow banking system' in which 'special investment vehicles' operated with almost no public accountability.

In the detail, the charge-sheet is very long, but it reduces to two principal claims. First, that politicians and public administrators were far too trusting in finance capital's powers of 'self-regulation', based on the so-called 'efficient markets hypothesis' (which says that financial markets produce sufficient information to continuously self-correct). The first chairman of Britain's Financial Services Authority (FSA), Sir Howard Davies, summarised this faith in the invisible hand with striking candour. "The philosophy from when I set it up", he admitted in 2008, "has been to say 'Consenting adults in private? That's their problem really'" (Wade 2008, 13). The second major charge is that gaps in regulatory oversight were allowed to develop. For instance, reflecting on the post-1997 division of labour between the Bank of England and the FSA, the Bank's deputy governor Paul Tucker said that "we left an underlap between us" (Moya 2009, 23). He was referring to the Authority's micro-regulatory focus on individual banks and the Bank's macro-regulatory focus on keeping inflation low: this meant that neither organisation was tasked with monitoring or addressing a build-up of systemic risk across the banking sector as a whole.

As with Interpretation 1 of the recent crisis, the 'light touch' regulation narrative is polyvalent in the political sense. Those who signed-up to 'self-regulating' finance from the get-go have been able offer-up *mea culpas* in its name, just as much as their critics have used it to say 'We told you so'. The difference lies in their preferred solutions. Students of J.K. Galbraith, Keynes and the American economist Hyman Minsky have called for a 'new financial architecture' whose principles and institutions would protect the public interest against the private agendas of risk-taking banks. Even some of those directly responsible for regulatory failure were, in the dark days of late 2008, given to such talk (Gordon Brown being a prime example). In addition, realists and pragmatists in the Marxian camp and on the socialist Left see the tactical sense in beefing-up financial regulation. Among the measures suggested have been a new Glass-Steagall Act, far tougher capital adequacy requirements and accounting standards, the outlawing of ‘off-balance-sheet’ banking, the de-universalisation of the short-term ‘shareholder value’ investment model, greater consumer protection from ‘predatory lending’, the break-up of overly large banks, and the creation of a ‘Tobin tax’ on certain cross-border financial transactions. There have been many other suggestions besides. In virtually every case, the policies would have to be implemented and enforced internationally. One of the remarkable oddities of recent history is that while finance capital has been borderless, its regulation has remained largely in the hands of national bodies like the US Securities and Exchange Commission.

These muscular proposals for change have so far fallen on deaf ears. As I noted above, the normative lessons of the ‘under-regulation’ narrative can easily be made consistent with the aspirations of those who do not want the visible hand of the state ‘interfering’ too much with finance capital’s operations. The new FSA banking code is a case in point. Issued in August 2009, it sets out eight principles that should govern the operation of City banks and sets new standards of information sharing and transparency. But it falls far short of the sort of meaty measures called for by proponents of a new financial architecture. Journalist John Kampfner dismissed it as “a gentle entreaty to Britain’s financial services industry to behave better” (2009, 26). The reason, it has been widely suggested, is politicians’ fear of City and Wall Street jobs disappearing overseas to financial centres with less stringent regulatory requirements. This, presumably, drove Alistair Darling and Tim Geithner to face-down the call of premiers Sarkozy and Merkel to control bankers’ bonuses at the September G20 meeting. The policy debate that divides those otherwise persuaded by the ‘regulatory failure’ interpretation is thus focussed on the following question: ‘how much financial regulation, of what sort, and at what geographical scale’?

Interpretation 3: ‘casino finance’ is to blame

Regulation requires two parties: regulators and the regulated. The third interpretation is really the flip-side of the second, and has been advanced by those who prefer, for whatever reason, to emphasise structural problems within the financial sector. This interpretation focuses on the ‘rational irrationality’ of banks and related private sector actors. The spotlight is here trained on how financial operators chose to exercise the freedom afforded to them by permissive regulators. Unlike the rather populist Interpretation 1, this one backgrounds greed and foregrounds a tragedy of the financial commons in which a frantic race for profit brought ruin to all. In October 2008 Congressional testimony, former Federal Reserve Bank chairman Alan Greenspan suggested these operators had ‘underpriced’ the systemic risk their own actions created – perhaps trying to deflect attention from his own lapses as Fed chairman during the Clinton era. Those less intimate with the world of high finance have preferred to use gambling analogies. For instance, the widely respected MP Vince Cable – Treasury spokesman for the British LibDem Party – has frequently compared modern financiers to those who frequent casinos (echoing Susan Strange, author of the prescient *Casino capitalism* [1997]).

Once again, the evidence to support this interpretation of events is not hard to seek. Given a lax regulatory environment, it’s no surprise that individual financial institutions entered into a competitive battle in which ‘financial innovation’ was seen as a key to success. The ‘originate and distribute’ approach to asset-backed securities is one of many cases in point. This approach became commonplace from the early 1990s, with City and Wall Street financiers in the vanguard. Traditional banks used to offer loans from depositors’ savings, and received their returns direct from clients over a period of months or years. The post-traditional banks of the last 20 years preferred to repackage loans and divide them into tranches to be sold-on immediately to institutional investors, pension fund managers or other financial institutions. These tranches were hedged against defaults by taking out insurance, and their cost to investors varied depending on the levels of risk and reward involved. By distributing the risks of potentially non-performing loans far and wide, the originators of tranches enjoyed instant returns on their lending while minimising their own vulnerability to defaults. They also off-loaded debt, enabling them to lend more money and do more business in a seemingly virtuous spiral. The problem, however, is that they were emboldened to seek-out ever riskier lending opportunities – such as sub-prime mortgages – in the belief that any resulting problems would be diffused across the entire financial system. As it turned out, the problems *infected* the system rather than being – as per the expectation – absorbed by it.

The dysfunctionality of the originate and distribute practices pursued by banks is but one example of what, in retrospect, looks like a form of widespread madness within the financial sector. But to call it madness is too easy. According to the third interpretation of crisis, it is better seen as a case of collective irrationality wherein individual banks continued to push the envelope so long as the profits came rolling in. In Robin Blackburn’s words, “if [finance capital] is unaccountable and unregulated it becomes sovereign in the capital re-allocation process, and … grab[s] the lion’s share of the gains it makes possible, including anticipated gains before they have been realised” (2008, 84). An awful lot of brain power and ingenuity went into creating the family of complex financial products and practices whose names are now tainted (‘over the counter trades’, hedge funds etc.). And an awful lot of money was made, for financial institutions, their shareholders and their many clients. In a sense, the numerous innovations conjured-up by traders, dealers, brokers and all the rest worked. And because they worked no one bank or bond insurer or ratings agency was prepared to call time on them, even though the party had to end sometime – just as the ‘roaring 20s’ came to an abrupt halt by that decade’s end.

As with Interpretation 2, the precise normative and policy implications of Interpretation 3 are rather varied. It licenses more-or-less intrusive regulation by public authorities, but at a minimum suggests that certain financial products and practices are far too risky to continue unabated. As Adair Turner, head of the FSA, said in August this year (much to the City’s consternation): far too many financial services are ‘socially useless’. As such, this interpretation resonates with those who favour rather mild or very strong reform alike. Chastened free marketers and those (Left or Right) in favour of less business-friendly regulation can relate to the casino finance narrative equally. The need for some form of ‘macro-prudential regulation’ of the banks has been their mantra. These banks, the argument goes, must be made more ‘moral’ and obliged to rediscover a sense of their proper role in sustaining both real economic activity and social stability. Like the ‘light touch’ regulation narrative, Interpretation 3 focuses squarely on the financial sector *per se* and its governance. This is a strength – after all, regulators and financiers must take considerable responsibility for their reckless (in)actions. But it is also a weakness – at least from the perspective of the next interpretation. For it brackets-out a whole set of absolutely critical considerations, leading Jean Pisani-Ferry and Indhira Santos to opine that “… many analysts have failed to grasp fully the character of the [recent] crisis” (2009, 9).

Interpretation 4: macro-economic imbalances are to blame

The fourth interpretation of the recent crisis aims to set finance capital in a wider economic context. As such, it folds interpretations two and three together and shows them to be but elements of a much larger story. This interpretation has been voiced by a number of individuals within the worlds of business journalism, politics and financial regulation; and it has been articulated by a number of analysts located in think tanks and universities. It is a rather technical, big picture interpretation that most members of the general public are only dimly aware of. It speaks to grand questions of economic history and geography rather than questions of micro-finance, regulatory procedure or bankers’ presumed motives. One of its more famous proponents summarises it well: “Today’s credit crisis”, writes Martin Wolf in *Fixingglobal finance*, “is a symptom of an unbalanced world economy” (2008, 5).

This interpretation’s starting point is the excess liquidity sloshing around the global economy this last twenty years or so. Without this liquidity, the financial sector would not have had the raw material needed to put its various complex instruments to work. From where did this liquidity originate? Two main sources: namely, the Middle East – reaping the continued rewards of oil exports – and several Far Eastern countries, whose growth has been based to a large extent on manufacturing exports. The latter include China, still the world’s fastest growing economy, and Japan, still one of the world’s largest economies even after its ‘lost decade’ triggered by a bursting property bubble 15 years ago. Why did countries in these two regions elect to run trade surpluses? In the Middle East there was little choice: the benefits of controlling oil needed by the rest of the world guaranteed colossal revenue streams relative to levels of domestic investment and consumption. In the Far East, one must look to the economic crisis of 1997-8 and the earlier Japanese crisis. These persuaded policy makers of the need to save for a rainy day and, specifically, of the need to convert surpluses into the world’s ‘universal’ (or ‘reserve’) currency, the US dollar. These measures would help stabilise the value of domestic money and insure against speculative attacks on home currencies. Though not badly affected by the 1997-8 meltdown, these lessons were learned by the Chinese too.

How was this achieved? To earn dollars several Far Eastern countries fixed the exchange rate of their domestic currencies to the dollar at a favourable level. This ensured that their exports to the US – still the world’s largest economy, even in the current recession – remained affordable for American consumers. So too did their relatively cheap labour costs (Japanexcepted), giving them a competitive advantage over many other overseas producers. The resulting dollar surpluses were either used to pay-off outstanding debts, hoarded, invested or lent to others. The most significant of these ‘others’ was the United States. After the dot.com bubble burst in the early noughties, direct foreign investment in the American economy became much less attractive. So East Asian countries (and some Middle Eastern ones) began to buy US Treasury bonds – traditionally, a reliable source of long-term income. This was (and remains) especially true of China. These bonds were issued readily by successive US administrations in need of liquidity to fund tax cuts and the high costs of government, including wars in Iraq and Afghanistan. Because this liquidity originated overseas, it did not raise the costs of domestic borrowing (which would’ve occurred had the government sourced money from US savers). Interest rates thus remained low, enabling financial institutions within and connected to Wall Street to expand their deposits and loans greatly. So it was that surpluses accumulated on one side of the world became transferred en masse to fund the US fiscal deficit, which led to cheap money for the domestic banks to spend. A good deal of this money went into US consumer borrowing and housing, so maintaining American demand for imports from Far and Middle Eastern countries.

This interpretation of the ‘deep causes’ of the recent crisis can be looked at from two angles. The ‘savings glut’ perspective blames those economies who accumulated large dollar surpluses. They are charged with obliging the US to be ‘consumer of the last resort’, a role it took-on to avoid global deflation. They should, the argument goes, have spent more and lent less. Successive chairmen of the Federal Reserve Bank have been notable authors of this perspective. The ‘money glut’ perspective looks at the coin from the other side. It points a finger at WashingtonDC. By running unprecedented trade deficits, the federal government is charged with living beyond its means. Maintaining the dollar’s strength against a number of currencies also made it more difficult for its export industries to earn overseas revenue, while benefiting dollar-rich Wall Street banks in their foreign ventures. In addition, the weak industrial policy of all administrations since Carter’s meant a lack of strategic investment in new industries. However, Wall Street is not let off the hook. Benefitting from the low interest rates set by Alan Greenspan, the financial sector could arguably have invested in new productive activities with high export potential. Instead, a consumer credit and housing bubble was produced – sub-prime mortgages being part of this. In Britain, New Labour, the Bank of England and the City were responsible for similar policies being pursued. Indeed, the ‘money glut’ perspective is consistent with the idea of a ‘First World debt crisis’, centred on the Anglo-American zone and fuelled by Japan and numerous developing world lenders.

Clearly, the normative implications of Interpretation 4 are far-reaching and appeal to those given – by inclination or profession – to strategising about geopolitics and geoeconomics. Critics of the US, but also many within the American establishment, have argued that it can no longer live beyond its means. It must borrow less, save more, devalue its currency, invest more in value-creating business ventures, and even relinquish the right of ‘seigniorage’. This is consistent with the ‘money glut’ perspective. One the other side, advocates of the ‘savings glut’ perspective argue that large trade surplus economies must (among other things), inflate their currencies, tolerate a dollar deflation, invest more at home, increase domestic wages and fund major public works in order to stimulate demand. What unites the two perspectives on Interpretation 4 is a recognition that global institutional reform is required that extends way beyond rethinking how finance per se is governed. Tinkering with the remit of the G20’s new Financial Stability Board’s (formerly the G7’s Financial Stability Forum) is thus not nearly enough. A modern-day Bretton Woods regime has been called for – only this time, a ‘global new deal’ would not be organised around US hegemony, and global governance institutions such as the World Bank, the IMF and a new World Financial Authority would reflect this change of circumstance. They would be democratic and pluralistic organisations dedicated to managing global affairs in the interests of numerous countries and power blocs.

Relative to all the previous interpretations of the recent financial crisis, the fourth adds a much-needed macro-economic, geopolitical and historical dimension. Its advocates consider it superior on these grounds, and there is copious evidence to support either the savings or money glut versions of the thesis. Economic nationalists can derive strategic lessons from this interpretation germane to their own country’s future, while internationalists can argue for a managed transition away from US dominance. However, its complexity ensures that this interpretation lacks the popular resonance of Interpretation 1. It is an interpretation operative only among those versed in the technicalities of global political economy – the sort of people who read *The Economist,* UNCTAD reports or academic journal essays about world affairs. This also applies to the fifth and final interpretation of the 2007-09 meltdown. The difference, as we will now see, is that this next interpretation is strongly favoured by commentators on both the reformist and revolutionary wings of the Left. This is because it supplements Interpretation 4 with concepts and evidence that radicalise its already considerable normative implications.

Interpretation 5: Anglo-Saxon neoliberalism is to blame

The fifth take on the recent crisis has been put forward by several academics influenced by Marxism, but also by some outside universities who criticise neoliberalism in the name of a more socially just model of capitalism – such as Graham Turner, author of *The Credit Crunch* (2008). This interpretation has not been loudly voiced in business circles or mainstream politics, let alone the mass media. But one or two within the political economic establishment have been prepared to lend it credence – such as the distinguished British ex-civil servant Sir Tim Lankester (2009).

The key to this interpretation is the 1970s, which is the last time the Western economies experienced a coordinated recession akin to today’s. Forty years ago, the post-war Keynesian compact began to crumble. The leading capitalist economies experienced varying degrees of stagflation: weak economic growth accompanied by rising prices. The crisis proved an opportunity for ‘neoliberal’ thinking to enter the fray, notably in the US and UK from 1979 onwards. In the name of personal and corporate ‘freedom’, the neoliberal programme emphasised the need to remove ‘barriers’ to free trade. It replaced the Keynesian focus on demand management with a concern to keep inflation low at all costs, by controlling the money supply. As the Reagan and Thatcher administrations showed, domestically this meant destroying most of the norms and institution of post-war managed capitalism. Trade union power was assailed, many ‘unproductive’ industries allowed to perish, labour markets ‘deregulated’, wage controls removed, tax breaks given to the corporate sector, and many state activities privatised or contracted out. This domestic agenda was scaled-up to the international level in the form of what later became known as ‘globalisation’. From the early 1980s, Washington pressed its allies to remove restrictions on international trade, lending and investment – with Britain an influential comrade-in-arms. The hope was that Anglo-Saxon capitalism could create new lucrative pockets of comparative economic advantage by trading in an expanded world system. But there were other reasons too. High labour costs in both countries combined with decreasing unit transportation costs and new telecommunications meant that domestic producers began to see geographic relocation and FDI as feasible strategies. In addition, even as their economies were in recession through the late 70s and early 80s, America and Britain retained their historic strength in banking and financial services. They used this to international advantage by progressively deregulating Wall Street and the City, and making them the centre of global liquidity flows. From the early 70s, both places became switching points in the world economy, re-channeling rivers of money from newly enriched oil states and ‘tiger economies’ to other parts of the world. The collapse of the former communist bloc and the end of Chinese isolation simply reinforced their centrality from the late 1980s onwards. The greater New York region and the south east of England duly felt the benefits, as did the national treasuries receiving tax revenues.

What were the long-term effects of the neoliberal turn in the US and Britain? According to proponents of Interpretation 5, they were less than salutary. First, both economies became far too reliant on finance, construction and retail, and failed to invest sufficiently in new ventures that could set domestic accumulation on a profitable, post-industrial path. Second, both countries’ manufacturing base was eviscerated, with many home-grown producers electing to invest overseas – in Britain, Dyson (maker of vacuum cleaners) became a well known example, repeating what iconic manufacturer General Motors had been doing for years by decamping to Mexico. Thirdly, the share of national wealth accruing to working people declined relative to that of those owning or running capitalist enterprises. This has been documented by Robert Pollin (2003), Gerard Dumenil and Dominique Levy (2004) – among others. According to David Harvey, in *A brief history of neoliberalism* (2005), this amounts to a restoration of class power in the neoliberal heartlands, but elsewhere besides. This new wealth inequality in the US and Britain – so Interpretation 5 goes – was achieved courtesy of four things: (i) China’s arrival on the world stage along with other low cost exporters kept consumer prices down and weakened demands for wage hikes; (ii) the credible threat of capital flight from the US and UK gave employers considerable power over their workforces; (iii) easy credit provided by City and Wall Street lenders, in a low interest environment, helped to conceal the fact of low wages for working class and lower middle class people (and created a false sense of personal wealth); and (iv) the defeat of the trades unions during the 1980s and the move to 'flexible' labour markets played havoc with the organisational capacities of the (increasingly indebted) average working person.

In sum, proponents of Interpretation 5 argue that, post the 1970s crisis, neoliberal policies succeeded in delivering economic growth in a range of countries worldwide – including the two major proponents of *laissez faire* capitalism. However, because the benefits of growth were skewed grotesquely in favour of the rich, the resulting 'demand gap' found in the American and British populations was filled by saddling households with debt. Meanwhile, new working populations in China, the Far East and the former communist bloc have been made to accept low wages as the price for export-led growth. To be sure, many of these workers have been lifted out of poverty by selling their labour power. But relative to the wealth created by their collective workplace efforts, they have enjoyed meagre rewards. Unlike 40 years ago, this crisis stems in large part from the weakness of wage labour. The fact that defaults on sub-prime mortgages made to 'ninjas' lit the financial tinder indicates as much ('ninjas' is a US mortgage brokers' term for people with no income, no job and no assets).

As I said above, proponents of Interpretation 5 add some missing ingredients to an otherwise persuasive Interpretation 4. They also, as I additionally indicated, tend not be those working in or around the worlds of politics, finance and commodity production. For reformist proponents of Interpretation 5, a managed sharing of economic and political power between the US and other major players – like Russia, Japan, the EU and China – should be accompanied by measures to stimulate domestic demand worldwide. A precondition of this would be a redistribution of wealth towards ordinary workers, increased public control of key economic sectors, and a new ethic that values greater social equality over the responsibilities and freedoms of individuals. These arguments do not chime with the thinking of business, media and political elites in the major capitalist states. Revolutionary proponents of Interpretation 5 go even further, unsurprisingly. For them, the current crisis is simply one of several ways in which the ineluctable contradictions of capitalism can play-out. Here is Geoff Mann, writing in *New Left Review*: "… regulation cannot be enough … The overthrow of capital's rule is literally the only way out" (2009, 126). Such an overthrow, clearly, would require coordinated radical action globally, led by a resurgent labour movement and/or a more tightly organised 'anti-globalisation' movement. The prospects of this are, needless to say, vanishingly small. As Slavoj Zizek once said, it remains far easier to imagine the end of the world than it does the end of capitalism.

A crisis of 'globalisation'?

I've just outlined what seem to me to be the principal explanations of the recent crisis. You'll notice that I've not so far discussed 'globalisation', the theme of this conference. So, was the 2007-09 crisis a crisis of globalisation? Is the current worldwide recession an indictment of globalisation, whatever that term might mean? Well, clearly the crisis was global in scale, even though it was centred on the UK and the US in particular. This is because of the concerted attempts to remove so-called 'barriers' to trade and investment since the mid-80s. But what I think is interesting is just now *marginal* the idea of globalisation has been to recent discussions of economic turbulence. This seems true in Britain, at least. To the extent that 'globalisation' has assumed a meaningful role in the debates, it's been either as a smokescreen or as a proxy for something else. Let me explain.

In March 2008, Gordon Brown's press releases and media appearances were full of talk about a '*global* crisis' and a '*worldwide* financial crisis'. On a GM TV interview seen by millions on March 4th he said this: "globalisation means that all countries are exposed to the problems affecting the financial sector". Subsequently, he and other G8 leaders spent some weeks criticising so-called 'offshore' financial centres and tax-havens, as if they were somehow to blame for the financial meltdown. In his March 4th speech to the US Congress this year, Brown once again repeatedly called the crisis 'global' as if this, in itself, was a sufficient characterisation of the financial calamity. It's clear to me, as I'm sure it is to you, that this was an attempt to deflect people's attention away from Brown's own culpability. When Chancellor of the Exchequer he created a system of weak regulatory oversight of City banks during the 90s and new millennium. The fact is that it was the major global investment banks that were at the vanguard of the financial meltdown, and virtually all of them were based in New York and London, not the Cayman Islands or Antigua. One should also note that Britain is ultimately responsible for several off-shore financial centres, several of which are British principalities or protectorates.

Gordon Brown aside, a few others have pointed the finger at 'globalisation' too but in less tendentious ways. For instance, writing in the London*Financial Times*, columnist Krishna Guha puts it thus: "There is", he says, "a strong case to be made that the current crisis is in the strictest sense a crisis of globalisation, fostered and transmitted by the … deep integration of very different economies". The business journalist and author Will Hutton (2009, 27) echoes this when he says that "the interdependencies that produced such growth in the good times have … the power to produce a self-reinforcing depressive vortex in bad times". Guha and Hutton are, of course, right in one sense. The reforms that began during the period of the so-called Washington Consensus certainly rendered many international borders more porous to international flows of money, commodities and people. This is why us social scientists spent so much of the 1995-2005 decade trying to define and measure 'globalisation'. However, it seems to me that Guha and Hutton are really referring to the geography of the current crisis, not its root causes – which can, in theory, assume any number of spatial forms. For my money, those causes are best described in the fourth and especially the fifth interpretation that I summarised a few minutes ago. This said, the geography *matters* of course, and if any future 'deglobalisation' is to occur, the worry is that it might take a nationalist form of the sort that it did during the 1930s. For now, it seems clear that the push to open-up borders has stalled. It is, perhaps, significant that the US and China have just recently taken a trade issue to arbitration within the WTO. The challenge for the international community is clear. How can some semblance of order and social justice be achieved in a world of uneven geographical development at a time the 20th century's hegemon is clearly in decline? We need a new globalisation project, but not one founded on principles of supposed 'free trade'.

Conclusion

"The present-day plunge into the economic abyss", writes R Taggart Murphy, "has … brought forth a smorgasbord of assertions about 'the' cause" (2009, 149). In this paper I've presented what I take to be the principal extant interpretations of the recent financial crisis. They are not mutually exclusive, but they seem to me to be relatively distinct. These interpretations have been variously promoted (and sometimes combined) by a range of commentators who, depending on their social location, speak to more-or-less sizeable, more-or-less knowledgeable audiences ranged across the spectrum of political belief. Within its own terms of intellectual reference, each interpretation has a certain efficacy. They can all be copiously evidenced and each has a normative dimension that conforms to the moral-political sentiments of different sections of the populations affected by the financial meltdown of 2007-09. They can even be combined into an omnibus explanation, supposing one can stomach something so bloated. Here, for example, is Czech Prime Minister Jan Fischer speaking at Chatman House in March 2009: "the financial crisis", he said, "resulted from an exceedingly complex interaction of market failures, global financial and monetary imbalances, inappropriate regulation, weak supervision and poor macro-prudential oversight."

However, it seems to me that such a catch-all account detracts from efforts to identify proximate and deep causes and to enumerate real policy alternatives moving forward.

Having remained studiously neutral thus far, let me now declare my own allegiances. It seems to me that while the second and third interpretations speak to the proximate causes of the recent crisis, the fourth but especially the fifth are the most telling of all. I offer this judgement not on purely cognitive grounds, as if evidence and logic alone can distinguish stronger from weaker interpretations. It is also a question of politics and values. The economic growth achieved prior to the current recession was accompanied by a systematic redistribution of wealth that greatly favoured the rich – This was no accident and it is morally unacceptable. At base, the 2007-09 crisis was a crisis of class-based neoliberalism led by the US (and secondarily Britain) – a project that ultimately failed to manage the venerable overaccumulation tendencies of capitalism.

Of course, in the wider scheme of things me or anybody else saying this matters little. In *Social justice and thecity*, his first book as a Marxist, David Harvey wisely insisted that "It's irrelevant to ask whether concepts … are 'true' or 'false'. We have to ask, rather, what it is that produces them and what they serve to produce" (1973, 298). This injunction should be taken to heart. Ultimately, the power of rival interpretations of the crisis depends both on who is advancing them and the wider appeal of their political philosophy. Given my own intellectual and political predilections, I say with regret – but not surprise – that interpretations likely to maintain the status quo are proving influential. To put this another way, the considerable intellectual power of the Marxian account of the recent economic crisis cannot, regrettably, vouchsafe its credibility or wider appeal. One of the reasons that the recent crisis has elicited relatively mild forms of public anger – despite its severity and scale – is surely because of the dominant storylines used to explain and address it. These storylines key-in to the social norms and values prevailing in many countries worldwide. With a nod to Ernst Bloch, Leo Panitch and Martijn Konings (2009, 82) phrase it like this: "Just as the re[form] … agenda may take … the wind out of the sails of domestic opposition, so proposals for a … more cooperative, multilateral international order may 'prematurely harmonize' the contradictions generated by global power structures". The moral economy created during the era of neoliberalisation has not disappeared overnight (nor will it), even in the face of a global financial crisis that has proven to be highly contagious and destructive in its effects. This is why even a simplified rendition of Interpretation 5 would not prove persuasive to many outside the epistemic community of (mostly) academics expounding it.

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